Board Of Investments

Fiscal Year 2005 Annual Report

MONTANA BOARD OF INVESTMENTS
Department of Commerce

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PO Box 200126
Helena, MT 59620-0126
www.investmentmt.com

The Honorable Brian Schweitzer, Governor

BOARD MEMBERS

- ***Terry Moore, Chairman***
  Executive Vice President & Chief Financial Officer
  First Interstate Bank
  Billings
  Term Ending 01/01/2007

- ***Teresa Cohea***
  Vice President
  D.A. Davidson & Co.
  Helena
  Term Ending 01/01/2009

- ***Elouise Cobell***
  Chairperson
  Blackfeet National Bank
  Browning
  Term Ending 01/01/2009

- ***Karen Fagg***
  Business Executive
  HKM Engineering, Inc.
  Billings
  Term Ending 01/01/2007

- ***Maureen Fleming***
  Professor of Management
  School of Business Administration
  University of Montana, Missoula
  Term Ending 01/01/2007

- ***John Paull***
  Battalion Chief
  Butte-Silver Bow Fire Department
  Butte
  Term Ending 01/01/2009

- ***Jack Prothero***
  Retired
  Financial Representative
  Great Falls
  Term Ending 01/01/2009

- ***Jim Turcotte***
  Financial Adviser
  Raymond James Financial Services
  Helena
  Term Ending 01/01/2009

- ***Calvin Wilson***
  County Attorney
  Big Horn County
  Busby
  Term Ending 01/01/2007

MONTANA BOARD OF INVESTMENTS
Staff as of June 30, 2005

- ***Carroll V. South***
  Executive Director
- ***Geri Burton***
  Deputy Director
- ***Louise Welsh***
  Bond Program Officer
- ***Mary Edwards***
  Bond Program Assistant
- ***Bobbie Pomroy***
  Science & Tech Portfolio Manager
- ***Julie D. Lutman***
  Network Administrator
- ***Kimberly R. Dallas***
  Program Assistant/Board Secretary
- ***Libby Groves***
  Administrative Assistant
- ***Sara LaFountaine***
  Imaging/Scanning Assistant
- ***Gayle Moon, CPA***
  Accounting Fiscal Manager
- ***Mari Rohrig***
  Accountant
- ***Roberta Diaz***
  Accountant
- ***Marilyn Umstead***
  Accountant
- ***Coralie Sciuchetti***
  Accountant
- ***Mary Noack***
  Accountant
- ***Delrene Rasmussen, CPA***
  Asst. Investment Officer - Montana Investments
- ***Herbert Kulow, CMB***
  Sr. Portfolio Manager - Montana Investments
- ***Sandi Conrady, CMB, ARU, AMP***
  Portfolio Manager – Montana Investments
- ***Richard Bridegroom, CMB, ARU***
  Mortgage Analyst
- ***Cliff Sheets, CFA***
  Chief Investment Officer – Effective Oct. 3, 2005
- ***Robert Bugni, CFA***
  Chief Investment Officer - Interim
- ***Richard Cooley, CFA***
  Senior Investment Officer-Fixed Income/Intl. Equities
- ***Rande Muffick, CFA***
  Assistant Investment Officer-Domestic Equities
- ***Edward Kelly***
  Assistant Investment Officer-Private Equity/STIP
- ***Roberta Ecklund***
  Research Manager – Interim/Investment Analyst
- ***Adam L. Nelson, CFA***
  Investment Analyst
- ***John Romasko, CFA, CPA***
  Investment Analyst – Fixed Income
- ***Steve Strong***
  Investment Analyst
- ***Jon Putnam***
  Investment Analyst
- ***Joseph Kennebeck***
  Trader

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INTRODUCTION

The Montana Board of Investments (Board) is pleased to submit its Annual Report for the fiscal year ended June 30, 2005. This report, required by law, discloses investment performance for the past fiscal year, summarizes the in-state investment activities of the Board, and provides public access to audited financial statements. Unless otherwise noted, all references to years in this report are state fiscal years beginning July 1 and ending June 30.

General Board Responsibilities

Unified Investment Program **-** Article VIII, Section 13 of the Montana Constitution requires that the legislature provide for a unified investment program for public funds and that the program be audited annually. Section 17-6-201, MCA established the unified investment program, created the Board, and gave the Board sole authority to invest state funds in accordance with state law and the state Constitution. State law requires that the Board operate under the "prudent expert principle," defined as: 1) discharging its duties with the care, skill, prudence, and diligence that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims; 2) diversifying the holdings of each fund to minimize the risk of loss and maximize the rate of return; and 3) discharging its duties solely in the interest of and for the benefit of the funds managed.

Prior to the Board's assumption of the state's investment program, state funds were invested by individual state agency staff, usually on a part-time basis. The creation of the Board in 1972 permitted a full-time professional investment staff to invest all state and (at the discretion of local governments) local government funds. At its first meeting in August 1971 the Board established four major goals:

- to centralize the state's investments;
- to invest the state's idle cash;
- to increase earnings on the state's investments; and
- to establish a sound system of control over the investment process, including provisions for systematic financial reporting, measurement of investment results, and a regular independent audit.

The unified investment program has grown from a book value of $321 million at year-end 1972 to a book value of $9.77 billion at year-end 2005 - an annual average increase of 10.9 percent. During the same period, the number of accounts invested by the Board increased from 40 accounts to 463 accounts.

In-State Investments **-** In addition to the Board's primary role of managing the state's unified investment program, the legislature has encouraged the Board to assist in Montana's economic development. Montana law (17-6-304, MCA) states that the "objectives for investment of the Permanent Coal Tax Trust Fund are to diversify, strengthen, and stabilize the Montana economy, and to increase Montana employment and business opportunities while maintaining and improving a clean and healthful environment. " Section 17-6-305, MCA, states that "the Board shall endeavor to invest up to 25 percent of the Permanent Coal Tax Trust Fund . . . in the Montana economy, with special emphasis on investments in new or expanding locally owned enterprises." In recent years the Legislature has created two new loan programs - the “Infrastructure and Value-Added Loan Programs – and set aside $50.0 million of the Trust for each program.

Commercial\Infrastructure/Value-Added Loans - The Board manages these programs in conformance with the "prudent expert principle" and does not invest solely to improve Montana's economy. Operating the in-state investment program under the "prudent expert principle" has not prevented the Board from investing millions of the Trust to spur Montana's economy. Since the program's inception in 1984 through 2005, the Board has funded 1,172 loans totaling $473.8 million in 43 of Montana's 56 counties. Loans funded by county are shown on Page 56.

Mortgages - The Board also purchases Montana mortgages with pension funds as a part of the in-state investment program. At year-end 2005 the Board held 1,696 mortgages with total book values of $92.9 million in 54 of Montana's 56 counties - a decrease from the mortgages valued at $123.6 million held at year-end 2004. The Board serves as a secondary market to qualified financial institutions in the in-state investment programs and does not lend directly to borrowers. Outstanding mortgages by county are shown on Page 54.

Bond Program - As a part of the Board's in-state investment activities, it also sells bonds and lends the proceeds to eligible governments for a variety of projects. Loan terms range from one to ten years, and short-term loans to finance cash flow deficits or interim financing are also available. Both the bond program and the in-state investment program, funded from the Permanent Coal Tax Trust, were created in fiscal year 1984 as part of the "Build Montana" program. Since the program's inception, $212.35 million has been loaned to eligible governments. Additional information on the Bond Program is shown on Page 58.

Securities Lending - Section 17-1-113, MCA, authorizes the Board to lend securities held by the state. Investment firms borrow securities to cover short positions, failed deliveries, arbitrage trades, and other brokerage activities. In recent years the Board has lent securities to qualified borrowers who pass rigorous tests and meet high standards for credit quality. Although state law requires that securities on loan be collateralized at least 100 percent, the Board requires borrowers to maintain collateral at 102 percent for domestic securities and 105 percent for international securities. To ensure that the collateral ratio is maintained, securities on loan are marked to market daily and the borrower must provide additional collateral if the value of the securities on loan increases. In addition to the strict collateral requirements imposed by the Board, the credit quality of approved borrowers is monitored continuously.

State Street Bank and Trust, the state's custodial bank, manages the state's securities lending program and retains 25 percent of the income generated as compensation for managing the program. The state earned securities lending income of $819,807 in 2005, compared to $907,508 in 2004. Because this program is demand driven by the markets, earnings are volatile.

Board Operations

Board Staff - The Board, comprised of nine members appointed by the Governor to staggered four-year terms, employs a Chief Investment Officer and an Executive Director who hire staff as authorized by the legislature. The current authorized staffing level of 34 full-time equivalents consists of two positions hired by the Board, plus 17 investment staff, six accounting staff, three bond program staff, and six support staff. Board staff also provides administrative support to the Montana Facility Finance Authority. Except for private equity, international stock, small-cap domestic stocks, and equity index type investments, the Unified Investment Program is managed by Board staff.

Board Administrative Costs - The investment portion of Board operations is funded by administrative charges against the funds it invests, while the bond program is primarily funded by the "spread" between the interest paid on bonds issued and interest received on loans made. Effective in 1998, the Legislature sets the maximum fees the Board may charge in the investment program. Board management fees in 2005 were 3.9 basis points of the average fair market value of internally managed portfolios. Custodial bank fees were less than 1 basis point of the Total Fund's average fair market value.

Board Policies and Procedures

Investment Policies **-** The Board adopts an investment policy for each individual fund it invests, except for funds investing in STIP only. The policies are tailored to the specific needs of the fund and are implemented only after consultation with the administrators of the funds. Asset allocations and investment time horizons are established by policy, as are the benchmarks against which investment performance is measured.

Benchmarks **-** The Board establishes appropriate benchmarks for each asset class and the Custodial Bank develops a composite benchmark for each fund that parallels the fund's asset allocation at market value.

Board Meetings **–** Regular Board meetings are held quarterly. Meeting dates, agenda, and minutes are posted on the Board's web page at www.investmentmt.com. All Board decisions are discussed and voted on in meetings open to the public.

Report Content

This report contains historical data from 1972 (the first fiscal year the Board managed the unified investment program) through 2004. All historical data were extracted from the Board's annual published reports. Statistical data are provided on the Board's investment activity in 2005 and changes in investments from 2004. Appendix A includes income generated by account and securities portfolios for all accounts managed by the Board. Appendix B contains the Board's audited financial statements with accompanying portfolios. The financial statements provide detailed information on the investment pools, the "all other funds" account, and the Bond Program.

Report Terminology

Book Values of fixed-income investments represent the securities' par values, plus or minus amortized premiums or discounts. Book value of equity securities is the average cost of the securities at the time of purchase.

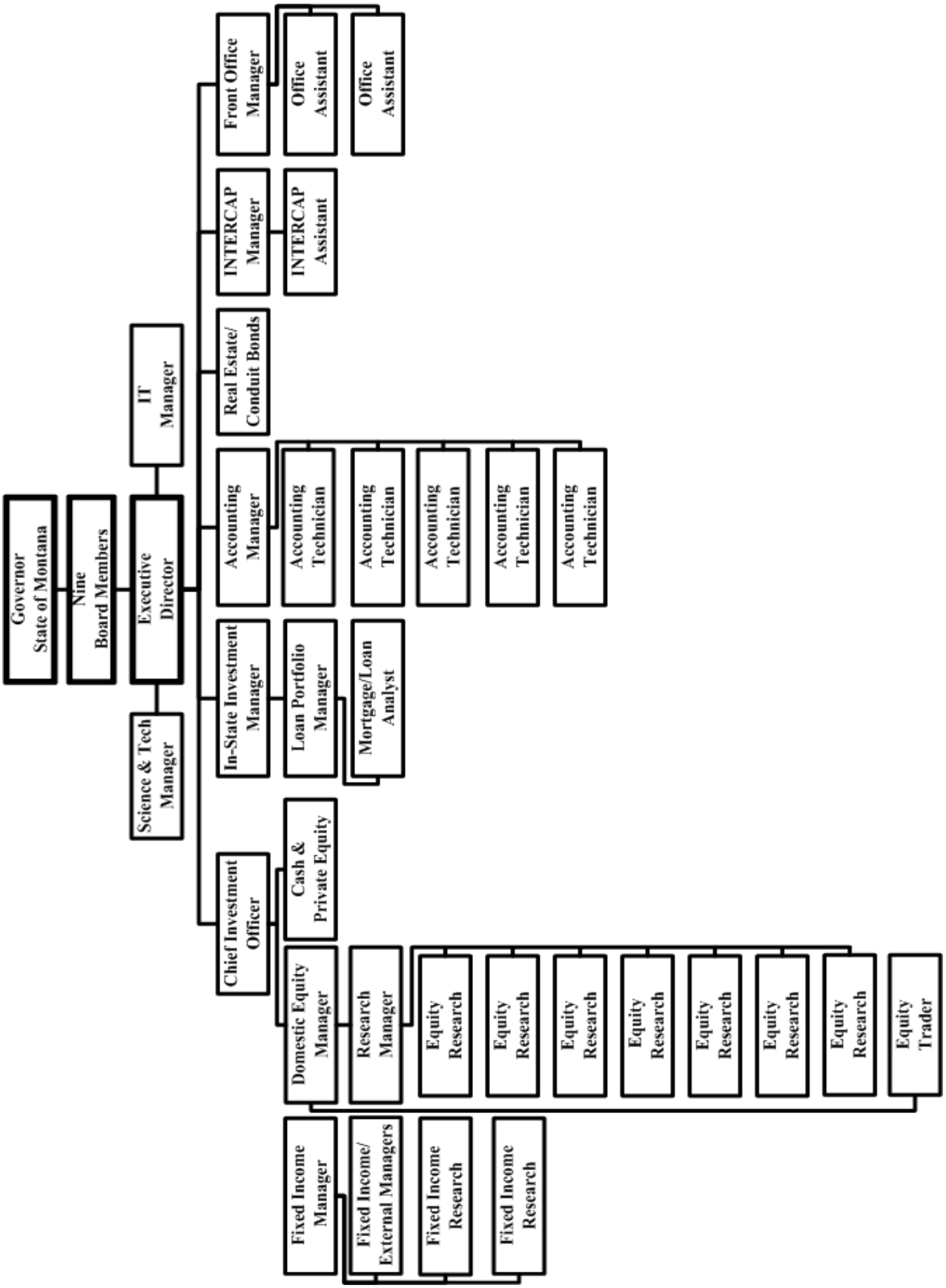
Fair Market Values reflect the value of securities on June 30 as priced by the Custodial Bank, or other sources.

Net Asset Value **(NAV)** as it relates to Investment Pools reflects the fair value of the pool securities, adjusted for payables, receivables, and cash on hand at year end. The aggregate fair value of the pool units held by pool participants equals the NAV of the pool.

Income Return utilizes actual invested balances and investment income as recorded in the state accounting system. The calculation divides the annual net income by one-half the sum of the beginning and ending invested balances. The income includes interest, dividends, amortization of premiums/discounts, securities lending income, and distributed realized gain/loss. The calculation is performed by Board staff. Income return does not consider any change in the fair market value of the portfolio during the period**.**

Total Rates of Return, calculated by the Custodial Bank, includes all investment income and the unrealized gains/losses resulting from annual changes in the market value of investments, after cash flows are netted. For periods longer than one year the returns are compounded and annualized. The total rate of return is used by the Board to compare investment staff performance to various stock/bond indices selected by the Board.

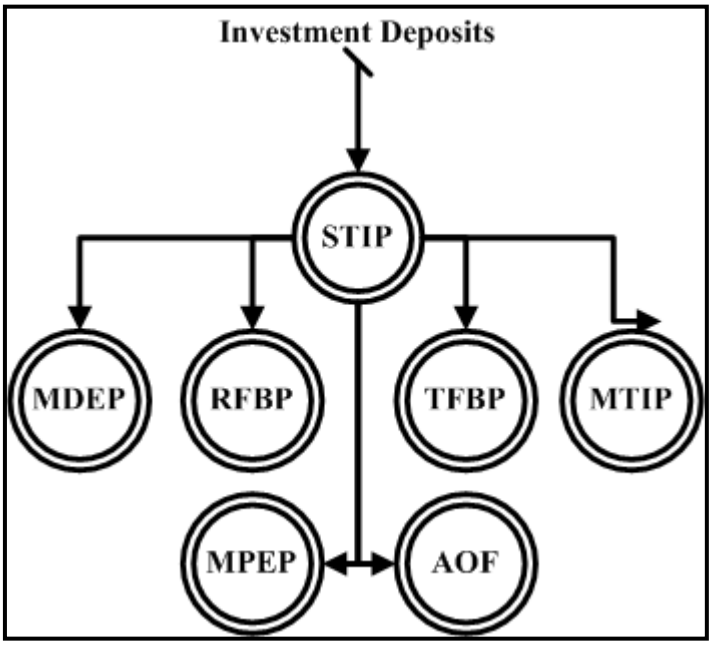
FUNCTIONAL ORGANIZATIONAL CHART



TOTAL FUND

The Total Fund is comprised of all state and local government funds invested by the Board. Fund types invested include pensions, trusts, insurance, debt service, state agency and higher education operating accounts, and local government funds. Unless otherwise provided by law, the Board must invest all state funds. Local governments at their discretion may invest funds with the Board.

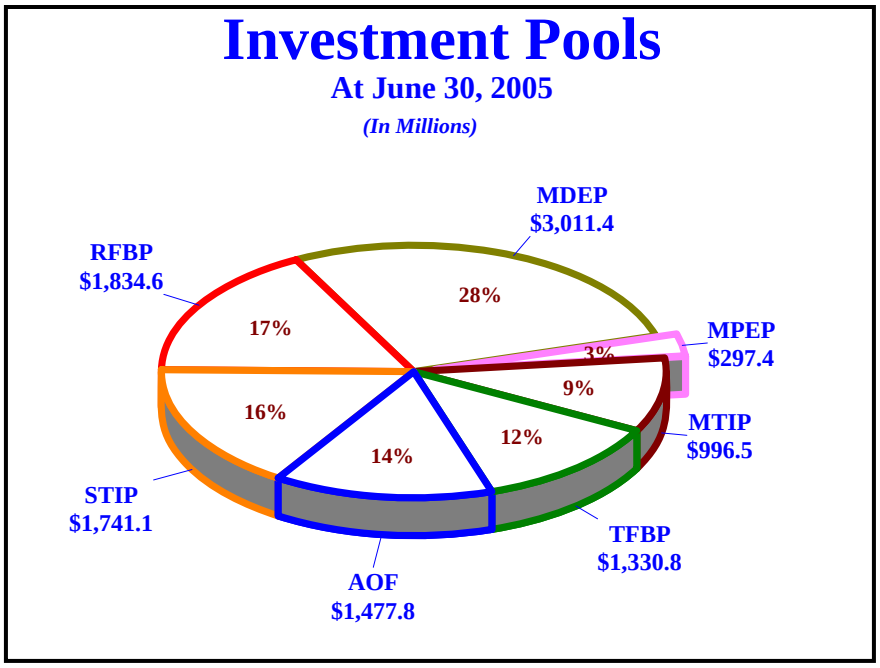
At June 30, 2005 the fair value of the Total Fund was $10.51 billion compared to $9.59 billion a year earlier. Fair values reflect the value of securities on June 30 as priced by the custodial bank, or other sources. During the year the Board invested 463 individual accounts, consisting of 286 state agency accounts and 177 local government accounts.



At year-end the Board managed 86.0 percent of the Total Fund in six investment pools, which operate similar to mutual funds. All cash is initially deposited in the Short Term Investment Pool (STIP), which operates as a money market fund. The pool has a fixed $1.00 share value and participants may invest and withdraw funds with 24 hours notice.

Depending upon the investment parameters of individual accounts, some of the account balances may be transferred from STIP to other investment pools, which include both equity and fixed-income investments. If accounts are authorized to invest in longer-term type investments but their investment parameters do not permit investment in the pools, they may be invested in individual portfolios included in the All Other Funds (AOF).

Most state agency accounts authorized by law to retain interest earning and all local government accounts are limited to STIP investments only. State agency accounts that invest in other investment pools or individual investment portfolios may maintain a minimum STIP balance for liquidity. Since the state's Trust Funds cannot be invested in equities, they are invested in the Trust Funds Bond Pool (TFBP) or individual fixed-income portfolios. Because there are no constitutional or legal restrains on the investment of state Pension Funds, they are invested in the Retirement Funds Bond Pool (RFBP) and the three equity pools – the Montana Domestic Equity Pool (MDEP), the Montana International Equity Pool (MTIP), and the Montana Private Equity Pool (MPEP).



The Montana Domestic Equity Pool (MDEP) comprised 28.0 percent of the Total Portfolio on June 30, 2005. Pool securities include actively-managed large and small cap domestic stock and passively-managed large and mid-cap domestic stock. The actively-managed large cap securities are managed by Board staff. All others are externally-managed. The nine pension funds comprise 99.0 percent of the pool's Net Asset Value. Dividends are distributed monthly and capital gains/losses are retained in the pool.

The Retirement Funds Bond Pool (RFBP), comprising 17.0 percent of the Total Portfolio on June 30, is reserved for pension funds only and all nine funds participate. Pool securities are a mix of long-term investment grade corporate bonds and U.S. government bonds. All bonds are U.S. Dollar denominated and the pool is managed by Board staff. Income is distributed monthly and capital gains/losses are distributed periodically.

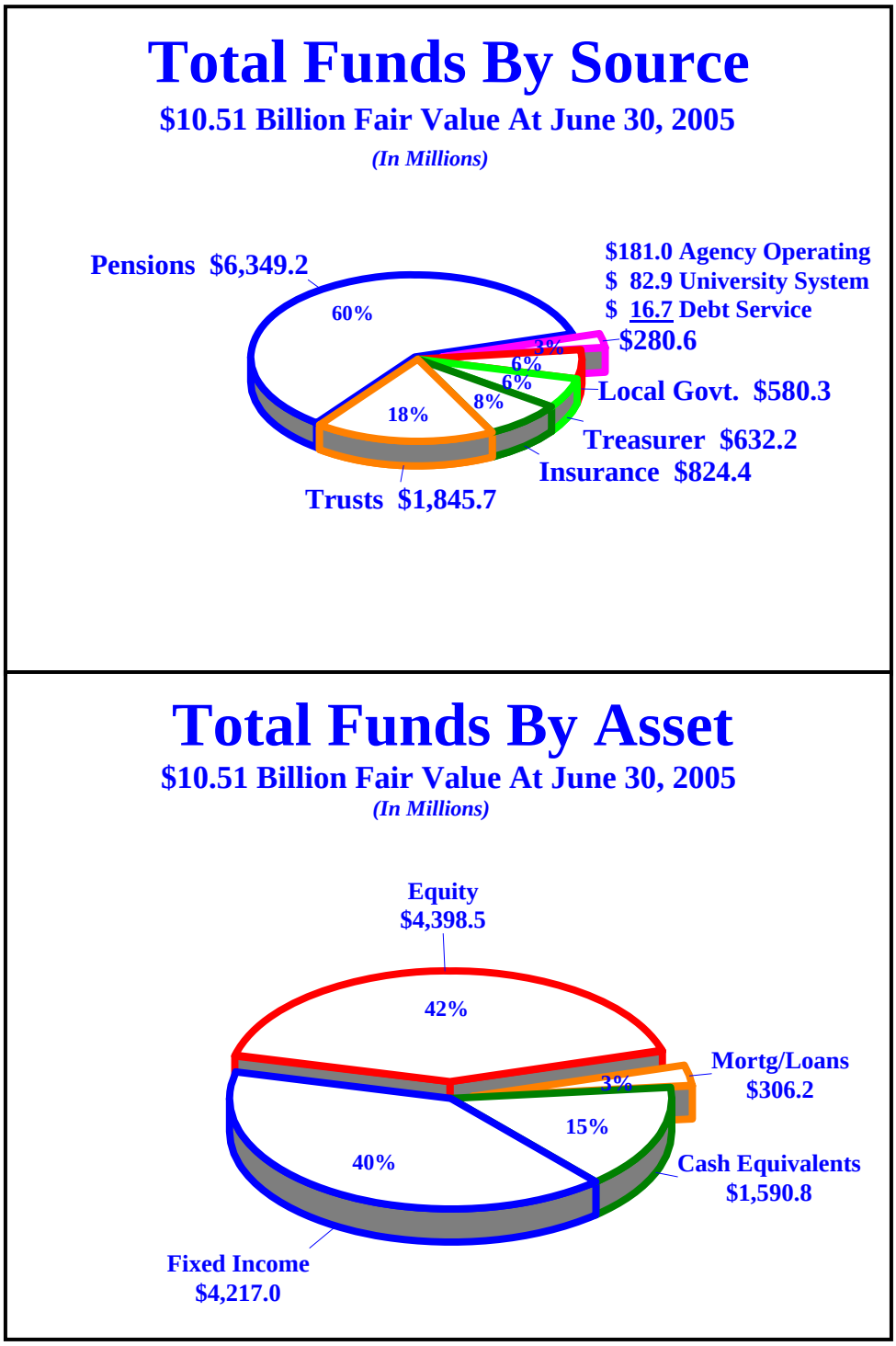
The Short Term Investment Pool (STIP) comprised 16.0 percent of the Total Portfolio on June 30. The pool operates as a money market fund with a constant share value of $1.00. There were 463 participants in the pool in 2005, including 177 local governments. Pool securities consist of investment grade short term securities. The pool is managed by Board staff and income is distributed monthly.

The Trust Funds Bond Pool (TFBP) accounted for 12.0 percent of the Total Portfolio on June 30. The 24 participants in this pool are a mix of trust funds and university funds that may be invested long term. The pool securities are similar to RFBP securities and the pool is managed by Board staff. Income is distributed monthly and capital gains/losses are distributed periodically.

The Montana International Equity Pool (MTIP), comprising 9.0 percent of the Total Portfolio on June 30, is reserved for pension funds only and all nine funds participate. Pool securities consist of both actively-managed and passively-managed Europe and Pacific Basin equity securities. The pool is managed by contracted external managers. Dividends are distributed monthly and capital gains/losses are retained in the pool.

The Montana Private Equity Pool (MPEP), comprising 3.0 percent of the Total Portfolio on June 30, is also reserved for pension funds only. The Board contracts with several private equity managers to invest in venture capital, leveraged buy-out, and other types of private equity investments. Income is distributed periodically and capital gains/losses are retained in the pool.

The All Other Fund (AOF) includes all other investments not held in the six investment pools. Securities include bonds, mortgages/loans, a passive index stock fund, and equity real estate.



The pie charts show the Total Fund by source and asset type at June 30, 2005. The nine pension funds comprised 60.0 percent of the Total Fund at fair value, while state trusts accounted for 18.0 percent.

The insurance portfolio is composed primarily of the State Fund (New Workers Compensation) and the Old Worker's Compensation Fund.

The Treasurer's Fund is essentially the state checking account that includes all state agency accounts not authorized to retain their interest earnings and the state general fund.

Local government investments in STIP comprised 6.0 percent of the Total Fund.

Except for $76.7 million of equity investments held by the State Fund and a handful of small trusts and endowments, the equity portfolio is held by the nine pension funds.

Mortgages and loans consist of residential mortgages and commercial loans to Montana businesses.

The Total Fund portfolio by major fund type and asset type are shown in the tables on the next page. The Total Fund invested balances and income history are shown on Page A – 16 in Appendix A.

Total Fund By Source And Asset Allocation At Fair Value On June 30, 2005

Fund Type	Cash Equivalents $	Domestic Stock $	Fixed Income $	Mortgage/ Loans	Other Equity (1)	Total
Pensions	101,126,032	3,009,260,669	1,834,620,222	93,811,197	1,310,359,844	6,349,177,964
Trusts	184,027,027	1,106,234	1,448,188,877	212,353,581		1,845,675,718
Insurance	106,650,845		641,052,586		76,737,097	824,440,528
Treasurer's	364,639,526		267,577,534			632,217,060
Local Gov.	580,347,134					580,347,134
Agency Cash	171,510,575		9,475,974			180,986,549
Universities	65,799,309	1,035,109	16,057,006			82,891,423
Debt Service	16,688,277					16,688,277
Total	1,590,788,725	3,011,402,012	4,216,972,198	306,164,777	1,387,096,941	10,512,424,653

(1) Includes International Stock, Equity Index Fund, Private Equity, and Real Estate

Total Fund Book/Fair Values of Securities Held At June 30, 2005

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Domestic Stocks/Indexes	2,609,202,578	3,011,913,931	402,711,352	26.7	28.6
Corporate Bonds	2,290,612,792	2,394,513,655	103,900,863	23.5	22.8
US Government-Backed Bonds	2,024,200,870	2,077,538,206	53,337,337	20.7	19.8
Commercial Paper	1,249,740,444	1,249,527,386	(213,058)	12.8	11.9
International Stocks	840,131,984	993,518,620	153,386,636	8.6	9.4
Mortgages\Loans	305,293,033	306,164,777	871,744	3.1	2.9
Private Equity	272,828,947	297,638,312	24,809,365	2.8	2.8
BGI Equity Index	68,406,676	76,737,097	8,330,421	0.7	0.7
Repurchase Agreements	62,124,221	62,124,221	0	0.6	0.6
Equity Real Estate	16,316,230	16,474,430	158,201	0.2	0.2
Foreign Government Bonds	14,886,316	15,652,500	766,184	0.2	0.1
State/Local Government Bonds	12,122,489	12,123,270	781	0.1	0.1
Total	9,765,866,580	10,513,926,405	748,059,825	100.0	100.0

Total Fund Annual Change At June 30 By Asset Type

Investment Type	2005 $ Book Value	% of Total	2004 $ Book Value	% of Total	$ Change	% of Change
Domestic Stocks/Indexes	2,609,202,578	26.7	2,479,060,702	27.6	130,141,876	5.2
Corporate Bonds	2,290,612,792	23.5	2,353,186,581	26.2	(62,573,789)	(2.7)
US Government-Backed Bonds	2,024,200,870	20.7	1,695,726,968	18.9	328,473,901	19.4
Commercial Paper	1,249,740,444	12.8	900,831,210	10.0	348,909,234	38.7
International Stocks	840,131,984	8.6	786,482,403	8.8	53,649,582	6.8
Mortgages\Loans	305,293,033	3.1	345,481,014	3.8	(40,187,981)	(11.6)
Private Equity	272,828,947	2.8	236,711,058	2.6	36,117,889	15.3
BGI Equity Index	68,406,676	0.7	68,406,676	0.8	0	0.0
Repurchase Agreements	62,124,221	0.6	71,847,576	0.8	(9,723,355)	(13.5)
Equity Real Estate	16,316,230	0.2	16,092,941	0.2	223,289	1.4
Foreign Government Bonds	14,886,316	0.2	14,873,016	0.2	13,300	0.1
State/Local Government Bonds	12,122,489	0.1	9,892,524	0.1	2,229,964	22.5
Total Investments	9,765,866,580	100.0	8,978,592,670	100.0	787,273,910	8.8

The tables on the next page show:

- The fair value of individual funds in descending order,
- Income generated by major funds, and
- The total rates of returns of major funds.

Total Fund By Fund At Fair Value On June 30, 2005

Fund	Fair Value $	Fund	Fair Value $
Public Employees' Retirement	3,232,788,978	Group Benefits Insurance	26,955,926
Teachers' Retirement	2,461,155,345	Other Trusts STIP	25,475,484
State Fund Insurance	685,491,597	Treasure State Water	23,128,923
Treasurer's Fund	632,217,060	Vol. Firefighters' Retirement	20,063,456
Local Government STIP	580,347,134	UM Other Funds	19,728,338
Permanent Coal Tax Trust	574,662,999	Parks Coal Trust	17,359,317
Trust & Legacy Fund	433,049,004	Debt Service STIP	16,688,277
UCFRB Restoration Fund	161,312,993	UM Designated Fund	16,140,821
Police Officers' Retirement	153,724,535	UCRFB Reserve Fund	15,743,881
St Agency Operations STIP	152,631,266	Higher Education STIP	15,230,027
Sheriffs' Retirement	151,006,508	FWP Mitigation	11,190,292
Firefighters' Retirement	146,685,522	Hail Insurance	8,909,984
Highway 93 Bond	129,567,724	Zortman/Landusky	8,587,962
Treasure State Endowment	129,403,541	Wildlife Habitat Trust	6,873,925
Resource Indemnity Trust	106,407,297	Abandoned Mines	5,435,860
Streamside Tailings	94,691,620	Cultural Coal Tax Trust	5,085,115
Highway Patrol Retirement	83,578,823	Weed Control Trust	4,828,595
Old Fund Insurance	62,952,777	FWP Real Property	4,676,689
Tobacco Trust	58,528,528	U of M Endowment	2,548,121
Game Wardens' Retirement	51,750,698	MT Tech UM Agency	2,062,932
Judges' Retirement	48,424,100	Subsequent Injury	1,768,318
Insurance STIP	38,361,926	Other Trusts MTCP	1,106,234
FWP License Account	28,355,282	Other Trusts TFBP	402,880
Montana Pole	28,156,856	Higher Education MTCP	126,374
Montana State University	27,054,811		
		Total	10,512,424,654

Total Fund Income

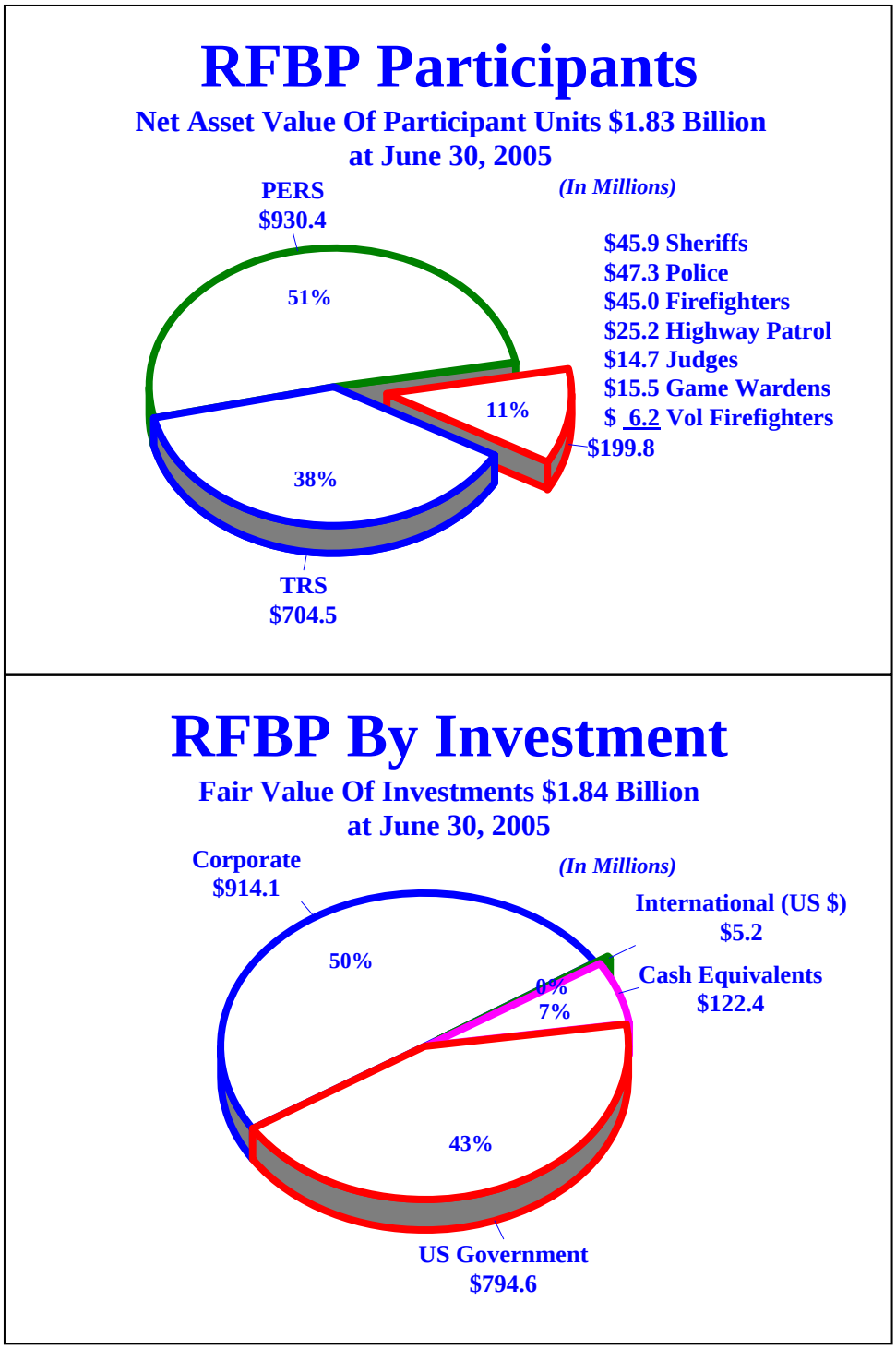
Fund Type	2005 $ Income	% of Total	2004 $ Income	% of Total	$ Change	% of Change
Public Employees' Retirement	93,137,953	25.8	157,174,263	33.3	(64,036,310)	(40.7)
Teachers' Retirement	75,845,392	21.0	129,319,390	27.4	(53,473,998)	(41.4)
Permanent Coal Tax Trust (1)	46,169,407	12.8	44,170,843	9.3	1,998,565	4.5
State Fund Insurance	30,226,050	8.4	27,825,991	5.9	2,400,059	8.6
Trust & Legacy Fund	28,375,979	7.9	30,140,513	6.4	(1,764,534)	(5.9)
Other Retirement Systems	18,452,543	5.1	29,437,359	6.2	(10,984,816)	(37.3)
Other Managed Portfolios	16,493,466	4.6	15,238,569	3.2	1,254,897	8.2
Local Governments STIP	12,419,504	3.4	6,570,598	1.4	5,848,907	89.0
UCFRB Restoration Fund	10,956,185	3.0	11,034,724	2.3	(78,539)	(0.7)
Treasurer's Fund	10,046,532	2.8	6,392,992	1.4	3,653,539	57.1
State Agency/Higher Ed. STIP	8,719,704	2.4	3,791,337	0.8	4,928,367	130.0
Resource Indemnity Trust	6,901,925	1.9	7,380,241	1.6	(478,316)	(6.5)
Old Fund Insurance	3,184,749	0.9	4,062,134	0.9	(877,386)	(21.6)
Total	360,929,390	100.0	472,538,954	100.0	(111,609,565)	(23.6)

(1) Includes Treasure State Endowment and Treasure State Regional Water

Major Funds 2005 Total Rates Of Return Compared to Index

Fund Name	% Return	Index (1)	Index % Return	Return +/- Index
Public Employees' Retirement	8.13	Composite	7.89	0.24
Teachers' Retirement	8.19	Composite	7.95	0.24
Coal Tax Permanent Fund	7.34			
State Fund Insurance	5.88	Composite	4.86	1.02
Trust & Legacy Fund	8.01			
Treasurer's Fund	2.27			
Resource Indemnity Trust	8.12			

(1) An Index Composite paralleling the Fund's asset allocation at fair value



RETIREMENT FUNDS BOND POOL (RFBP)

On April 1, 1995, all fixed-income investments held by the nine pension funds were transferred to the newly-created Retirement Funds Bond Pool (RFBP). Each pension fund received shares in the pool equal in value to the fair value of its fixed-income portfolio on the date of the transfer.

The upper graph depicts the net asset value of the pool at June 30. The lower graph represents the fair value of the securities held by the pool. The difference in the net asset value and the securities held is the interest receivables included in the net asset value of the pool.

The RFBP distributed $118.6 million in income to participants in 2005, compared to $113.7 million in 2004. Income distributed includes, interest accruals, discount/premium, and realized gains/losses.

The RFBP financial statement, which lists the individual securities in the portfolio, is shown on Page B-1 in Appendix B.

The tables on the next page show:

- The changes in book value of portfolio securities,
- The difference between book and fair value of the securities portfolio, and
- The securities portfolio's total rate of return.

RFBP Annual Change At June 30

Investment Type	2005 $ Book Value	% of Total	2004 $ Book Value	% of Total	$ Change	% Change
Corporate Bonds (Rated)	838,067,187	47.8	808,842,767	52.1	29,224,421	3.6
Corporate Bonds (Unrated)	19,289,266	1.1	19,161,517	1.2	127,750	0.7
Foreign Government Bonds	4,962,105	0.3	4,957,672	0.3	4,433	0.1
U.S. Govt Direct-Backed Bonds	180,694,406	10.3	85,756,453	5.5	94,937,953	110.7
U.S. Govt Indirect-Backed	587,410,682	33.5	569,896,545	36.7	17,514,137	3.1
Total Fixed Income	1,630,423,646	93.0	1,488,614,953	95.9	141,808,693	9.5
Short Term Investment Pool	112,477,995	6.4	63,754,291	4.1	48,723,704	76.4
State Street Repurchase Agr.	9,923,600	6.4	0	0.0	9,923,600	N/A
TotalCash Equivalents	122,401,595	7.0	63,754,291	4.1	58,647,304	92.0
Total	1,752,825,241	100.0	1,552,369,244	100.0	200,455,997	12.9

RFBP Book/Fair Values At June 30, 2005

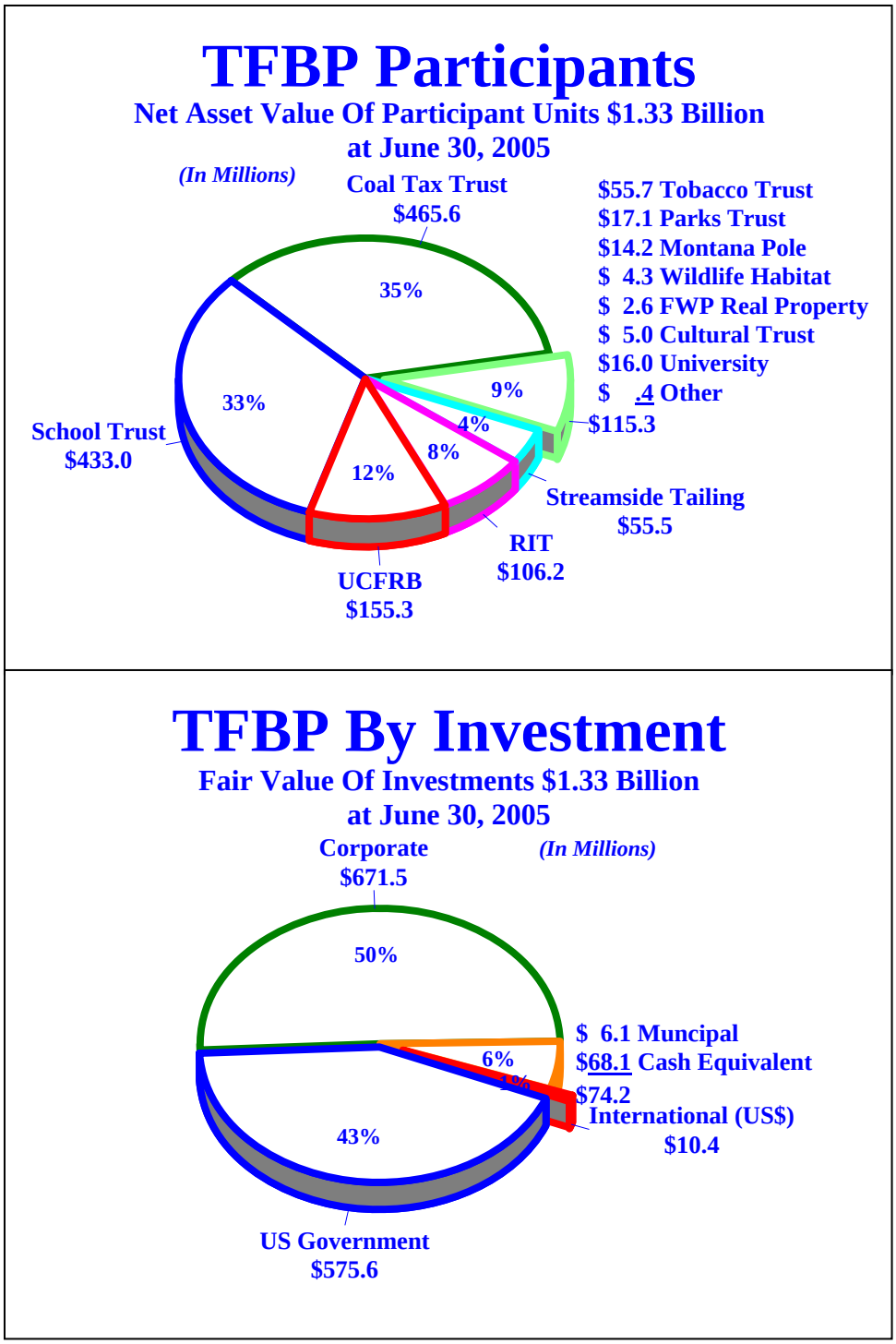
Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Corporate Bonds (Rated)	838,067,187	894,556,479	56,489,292	47.8	48.7
Corporate Bonds (Unrated)	19,289,266	19,537,653	248,386	1.1	1.1
Foreign Government Bonds	4,962,105	5,217,500	255,395	0.3	0.3
U.S. Govt Direct-Backed Bonds	180,694,406	188,790,314	8,095,908	10.3	10.3
U.S. Govt Indirect-Backed	587,410,682	605,800,830	18,390,148	33.5	33.0
Total Fixed Income	1,630,423,646	1,713,902,776	83,479,130	93.0	93.3
Short Term Investment Pool	112,477,995	112,477,995	0	6.4	6.1
State Street Repurchase Agr.	9,923,600	9,923,600	0	0.6	0.5
TotalCash Equivalents	122,401,595	122,401,595	0	7.0	6.7
Total	1,752,825,241	1,836,304,371	83,479,130	100.0	100.0

RFBP Total Rates of Returns Versus Benchmark

Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2005	8.12	CitiGroup Broad Investment	7.00	1.12
3 Year Annualized Average	8.19	CitiGroup Broad Investment	5.88	2.31
5 Year Annualized Average	9.26	CitiGroup Broad Investment	7.46	1.80
10 Year Annualized Average	7.80	CitiGroup Broad Investment	6.84	0.96

INVESTMENT OBJECTIVE/CONSTRAINTS

- Diversified portfolio, producing a total rate of return exceeding the Lehman Brothers Aggregate Bond Index over a five-year rolling period.
- Above average risk tolerance, especially long-term investment risk.
- Low liquidity requirements, except for investment purposes.
- Securities purchased are investment-grade as per Standard & Poor's or Moody's rating services with maturities not exceeding 40 years.
- No additional purchases permitted if credit risk exceeds two percent.
- Mortgage-backed securities purchased must be backed by the US Government or its agencies.
- All securities must pay in US Dollars.



TRUST FUNDS BOND POOL (TFBP)

On October 1, 1995, all fixed-income investments held by the state's major trust funds were transferred to the newly-created Trust Funds Bond Pool (TFBP). Each trust fund received shares in the pool equal in value to the fair value of their fixed-income portfolio on the date of the transfer.

The upper graph depicts the net asset value of the pool at June 30. The lower graph represents the fair value of the securities held by the pool. The difference in the net asset value and the securities held is due to interest receivables and cash included in the net asset value.

The TFBP distributed $85.3 million in income to participants in 2005, compared to $86.8 million in 2004. Income distributed includes interest accruals, discount/premium, and realized gains/losses.

The TFBP financial statement, which lists the individual securities in the portfolio, is shown Page B-12 in Appendix B.

The tables on the next page show:

- The changes in book value of portfolio securities,
- The difference between book and fair value of the securities portfolio, and
- The securities portfolio's total rate of return.

TFBP Annual Change At June 30

Investment Type	2005 $ Book Value	% of Total	2004 $ Book Value	% of Total	$ Change	% Change
Corporated Bonds (Rated)	624,287,960	49.1	633,550,113	51.6	(9,262,153)	(1.5)
Corporate Bonds (Unrated)	5,956,312	0.5	7,867,682	0.6	(1,911,371)	(24.3)
Foreign Government Bonds	9,924,211	0.8	9,915,344	0.8	8,866	0.1
U.S. Govt Direct-Backed Bonds	114,906,104	9.0	90,731,831	7.4	24,174,273	26.6
U.S. Govt Indirect-Backed	441,037,218	34.7	431,865,542	35.2	9,171,676	2.1
Municipal Govt Bonds (Unrated)	6,122,489	0.5	9,892,524	0.8	(3,770,036)	(38.1)
Total Fixed Income	1,202,234,293	94.6	1,183,823,037	96.4	18,411,255	1.6
Short Term Investment Pool	64,746,934	5.1	44,503,715	3.6	20,243,219	45.5
State Street Repurchase Agr.	3,307,867	0.3	0	0.0	3,307,867	N/A
TotalCash Equivalents	68,054,800	5.4	44,503,715	3.6	23,551,085	52.9
Total Investments	1,270,289,093	100.0	1,228,326,752	100.0	41,962,341	3.4

TFBP Book/Fair Values At June 30, 2005

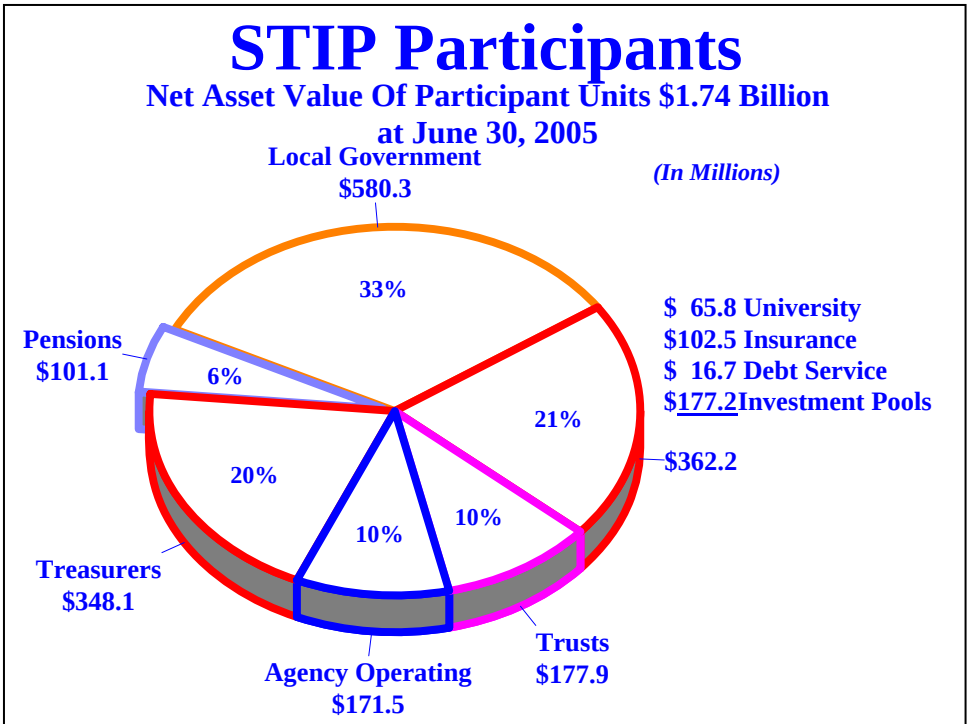
Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Corporated Bonds (Rated)	624,287,960	665,536,568	41,248,608	49.1	50.0
Corporate Bonds (Unrated)	5,956,312	5,956,312	0	0.5	0.4
Foreign Government Bonds	9,924,211	10,435,000	510,789	0.8	0.8
U.S. Govt Direct-Backed Bonds	114,906,104	120,326,386	5,420,282	9.0	9.0
U.S. Govt Indirect-Backed	441,037,218	455,262,802	14,225,584	34.7	34.2
Municipal Govt Bonds (Unrated)	6,122,489	6,123,270	781	0.5	0.5
Total Fixed Income	1,202,234,293	1,263,640,337	61,406,045	94.6	94.9
Short Term Investment Pool	64,746,933	64,746,933	0	5.1	4.9
State Street Repurchase Agr.	3,307,867	3,307,867	0	0.3	0.2
TotalCash Equivalents	68,054,800	68,054,800	0	5.4	5.1
Total Investments	1,270,289,093	1,331,695,138	61,406,045	100.0	100.0

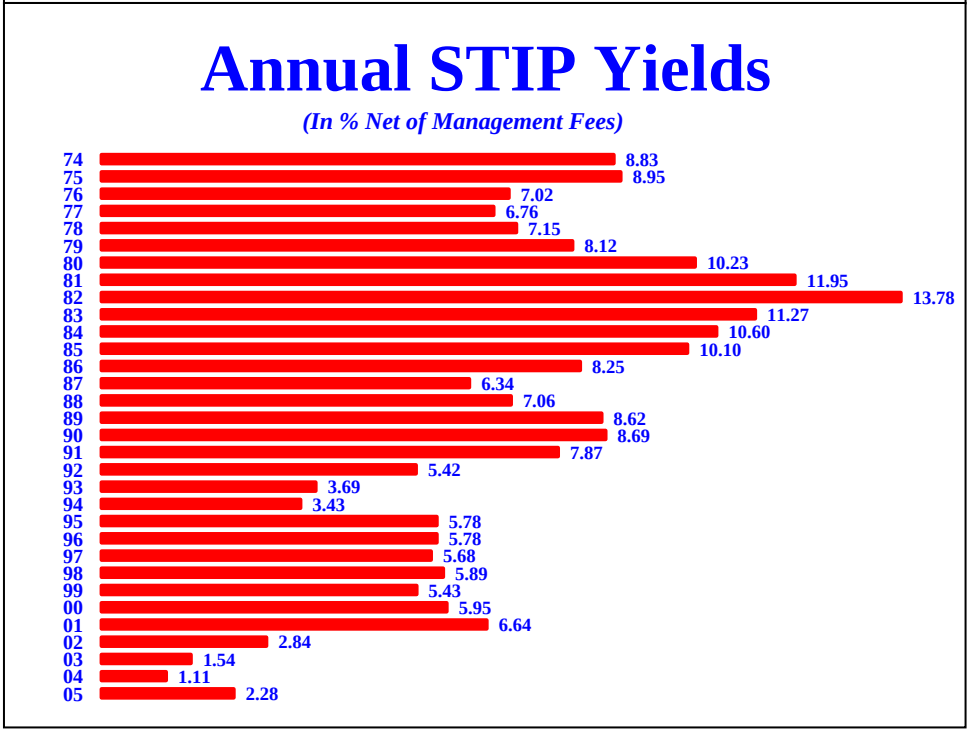
TFBP Total Rates of Returns Versus Benchmark

Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2005	8.18	CitiGroup Broad Investment	7.00	1.18
3 Year Annualized Average	7.93	CitiGroup Broad Investment	5.88	2.05
5 Year Annualized Average	9.04	CitiGroup Broad Investment	7.46	1.58

INVESTMENT OBJECTIVE/CONSTRAINTS

- Diversified portfolio, producing a total rate of return exceeding the Lehman Brothers Aggregate Bond Index over a five-year rolling period.
- Above average risk tolerance, especially long-term investment risk.
- Low liquidity requirements, except for investment purposes.
- Securities purchased are investment-grade as per Standard & Poor's or Moody's rating services with maturities not exceeding 40 years.
- No additional purchases permitted if credit risk exceeds two percent.
- Mortgage-backed securities purchased must be backed by the US Government or its agencies.
- All securities must pay in US Dollars.
- Current income is important since it is distributed to participants.





SHORT TERM INVESTMENT POOL (STIP)

The Short Term Investment Pool (STIP), created in 1974, provides participants access to a short-term money market fund. Shares are fixed at $1.00, fractional shares may be purchased, and participants may buy or sell shares with one business day's notice. Income is distributed on the first day of the month.

The upper graph depicts the net asset value of the pool at June 30. The lower graph shows the historical yield to participants based on distributed income after management and custody fees are deducted.

There were 463 accounts invested in STIP during the year, consisting of 286 state accounts and 177 local government accounts. The STIP distributed $31.6 million to participants in 2005, compared to $15.8 million in 2004.

The STIP financial statement, which lists the individual securities in the portfolio, is shown on Page B-24 in Appendix B.

The tables on the next page show:

- The changes in Net Asset Value by major participant type,
- The book and fair value of the securities portfolio by major asset type, and
- The securities portfolio's total rate of return.

STIP NAV Annual Change By Participant At June 30

Fund Type	2005 $ NAV (1)	% of Total	2004 $ NAV (1)	% of Total	$ Change	% Change
Local Governments	580,347,134	33.3	601,911,349	40.7	(21,564,215)	(3.6)
Treasurer's Fund	348,097,292	20.0	221,130,581	14.9	126,966,711	57.4
Pension Funds	101,126,032	5.8	194,163,866	13.1	(93,037,834)	(47.9)
Trust Funds	177,868,468	10.2	114,899,937	7.8	62,968,531	54.8
Agency Operating	171,510,575	9.9	96,434,953	6.5	75,075,622	77.9
University System	65,799,309	3.8	62,454,638	4.2	3,344,670	5.4
Insurance Funds	102,458,885	5.9	59,339,673	4.0	43,119,211	72.7
Investment Pools	177,224,929	10.2	108,258,006	7.3	68,966,923	63.7
Debt Service Funds	16,688,277	1.0	21,623,586	1.5	(4,935,309)	(22.8)
Total	1,741,120,900	100.0	1,480,216,590	100.0	260,904,311	17.6

(1) Net Asset Value

STIP Book/Fair Values At June 30, 2005

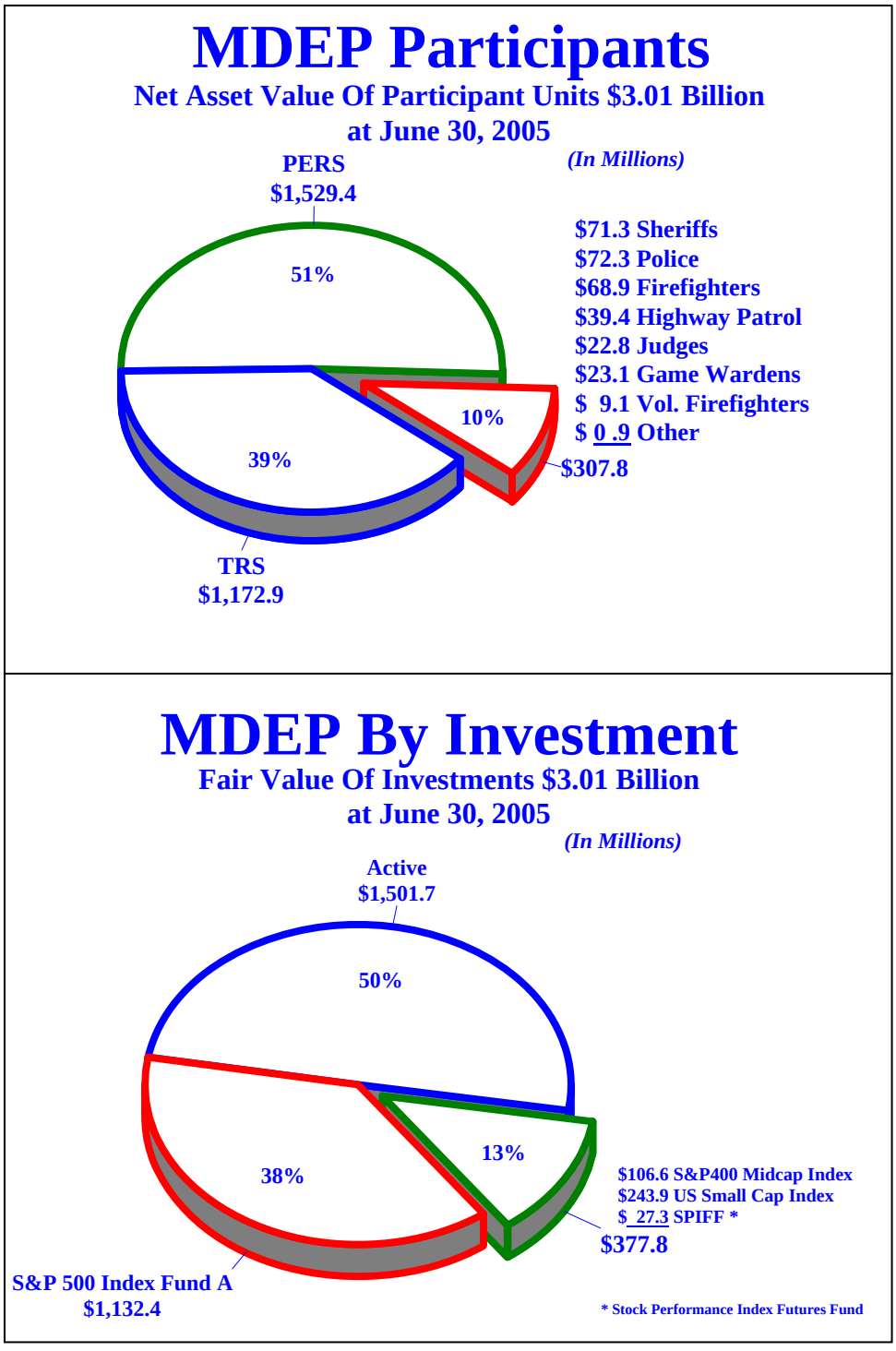
Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Commercial Paper	1,249,740,444	1,249,527,386	(213,058)	71.7	71.7
Repurchase Agreements	22,000,000	22,000,000	0	1.3	1.3
Corporate Fixed	49,998,872	49,821,250	(177,622)	2.9	2.9
Variable-Rate (Floating-Rate)	420,996,202	420,951,800	(44,402)	24.2	24.2
Total	1,742,735,519	1,742,300,436	(435,083)	100.0	100.0

STIP Total Rates of Returns Versus Benchmark

Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2005	2.30	91-Day T Bill x 105%	2.14	0.16
3 Year Annualized Average	1.66	91-Day T Bill x 105%	1.54	0.12
5 Year Annualized Average	2.88	91-Day T Bill x 105%	2.61	0.27
10 Year Annualized Average	4.32	91-Day T Bill x 105%	4.02	0.30

INVESTMENT OBJECTIVE/CONSTRAINTS

- Diversified money market fund, producing a total rate of return 105 percent of the 91-Day US Treasury Bill.
- Highly liquid portfolio.
- Maximum security maturity of 397 days.
- Participants include state agencies, local governments and school districts.
- Risk tolerance is low.



MONTANA DOMESTIC EQUITY POOL (MDEP)

The Montana Domestic Equity Pool (MDEP) was created in May 1, 2003, when all investments held in the Montana Common Stock Pool, the Standard and Poor's 500 Index Fund A and the Dimensional Fund Advisors US Small Cap Index were combined to create the pool.

The upper graph shows the net asset of the pool at June 30. The lower graph shows the fair value of investments held by active and passive management.

The MDEP distributed $36.6 million of income to participants in 2005, compared to $32.4 million in 2004. Income distributed includes dividends, security lending and miscellaneous income. All realized capital gains and losses are retained in the pool.

The MDEP financial statement, which lists the individual securities in the portfolio, is shown on Page B – 31 in Appendix B.

The tables on the following pages show:

- The 10-largest holdings in the actively-managed portfolio,
- Changes in the fair value of the securities portfolio by sector,
- The book value and fair value of the securities portfolio, and
- The active-managed securities portfolio's total rate of return.

Montana Common Stock Pool 10 Largest Holdings as of June 30, 2005

Company	Shares	Fair $ Value	% of MTCP
General Electric Co	2,138,200	74,088,630	4.9
Exxon Mobil Corp	1,136,612	65,321,092	4.3
Citigroup Inc	1,063,366	49,159,410	3.3
Johnson + Johnson	667,300	43,374,500	2.9
Microsoft Corp	1,680,000	41,731,200	2.8
Pfizer Inc	1,475,960	40,706,977	2.7
Bank America Corp	809,100	36,903,051	2.5
Intel Corp	1,281,500	33,395,890	2.2
Chevron Corp	594,500	33,244,440	2.2
Wal Mart Stores Inc	626,000	30,173,200	2.0
Total Ten Largest Holdings	11,472,538	448,098,390	29.8
Total MTCP		1,501,726,262	

MDEP Sector and Active/Passive Management Change At June 30

Sector	2005 $ Fair Value	% of Total	2004 $ Fair Value	% of Total	$ Change	% Change
S & P 500 Index (Passive)	1,132,427,185	37.6	596,835,084	20.6	535,592,101	89.7
Financials	309,552,797	10.3	406,559,448	14.0	(97,006,651)	(23.9)
Information Technology	281,910,831	9.4	381,749,523	13.2	(99,838,692)	(26.2)
Health Care	254,596,685	8.5	299,536,679	10.3	(44,939,994)	(15.0)
US Small Cap Enhanced Index	243,808,328	8.1	323,104,286	11.1	(79,295,958)	(24.5)
Industrials	180,803,250	6.0	249,403,194	8.6	(68,599,944)	(27.5)
Energy	166,878,186	5.5	141,700,994	4.9	25,177,192	17.8
Consumer Discretionary	149,329,272	5.0	226,895,068	7.8	(77,565,796)	(34.2)
S & P 400 Midcap Index	106,616,769	3.5	0	0.0	106,616,769	N/A
Consumer Staples	105,701,233	3.5	138,459,456	4.8	(32,758,223)	(23.7)
Materials	30,960,408	1.0	50,706,128	1.7	(19,745,720)	(38.9)
SPIFF (1)	27,335,387	0.9	40,405,340	1.4	(13,069,953)	(32.3)
Telecommunication Services	21,993,600	0.7	43,372,269	1.5	(21,378,669)	(49.3)
Utilities	0	0.0	3,557,400	0.1	(3,557,400)	(100.0)
Total	3,011,913,931	100.0	2,902,284,868	100.0	109,629,063	3.8

(1) Stock Performance Index Futures Fund - Includes Money Market & Cash

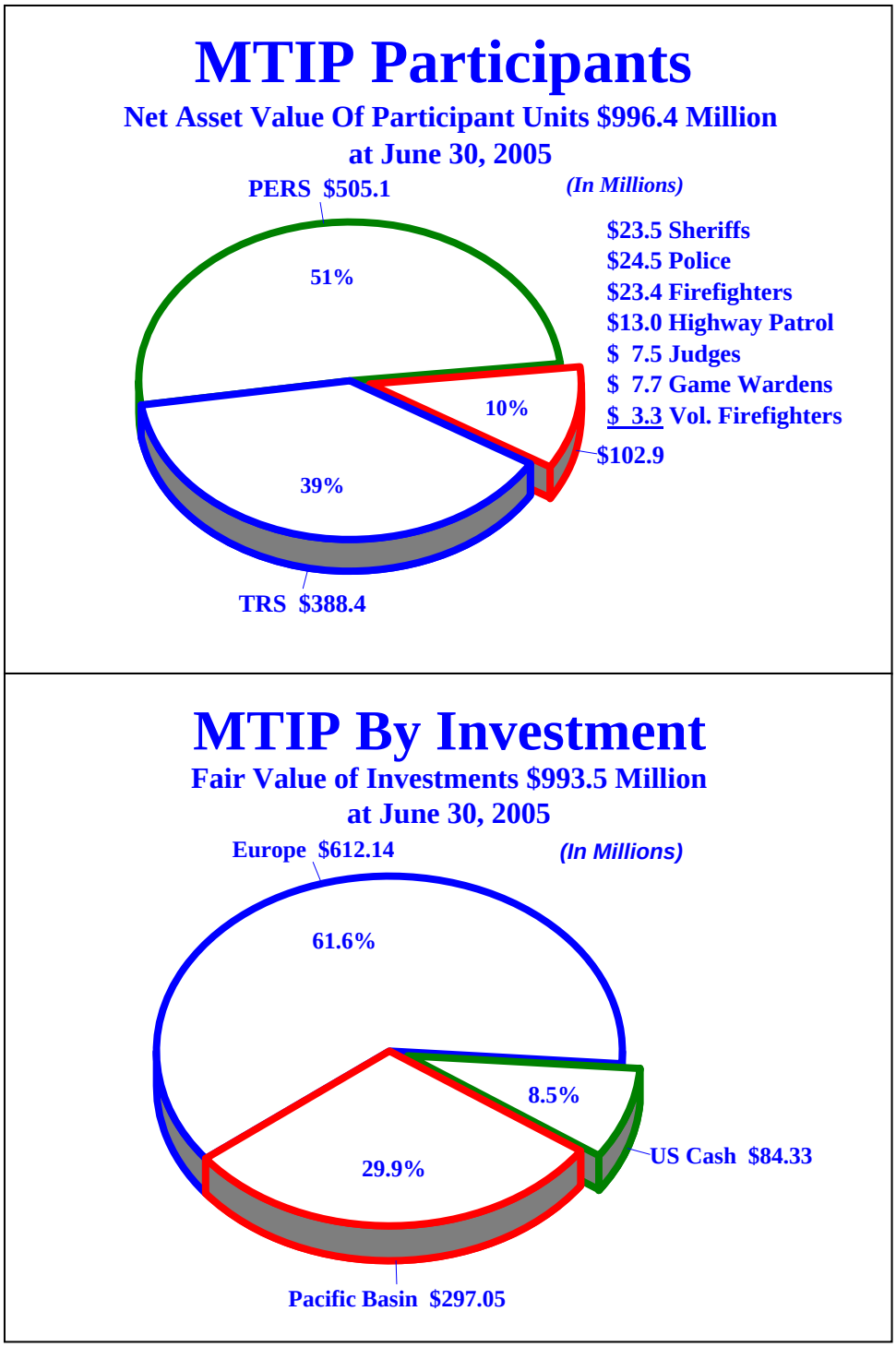
MDEP Book/Fair Values At June 30, 2005

Sector	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
S & P 500 Index (Passive)	1,039,695,684	1,132,427,185	92,731,501	39.8	37.6
Financials	251,265,957	309,552,797	58,286,840	9.6	10.3
Information Technology	273,970,833	281,910,831	7,939,998	10.5	9.4
Health Care	218,993,157	254,596,685	35,603,528	8.4	8.5
US Small Cap Enhanced Index	177,282,131	243,808,328	66,526,197	6.8	8.1
Industrials	125,640,699	180,803,250	55,162,551	4.8	6.0
Energy	103,602,072	166,878,186	63,276,114	4.0	5.5
Consumer Discretionary	150,802,194	149,329,272	(1,472,922)	5.8	5.0
S & P Midcap Index	100,000,000	106,616,769	6,616,769	3.8	3.5
Consumer Staples	90,886,078	105,701,233	14,815,155	3.5	3.5
Materials	29,210,235	30,960,408	1,750,173	1.1	1.0
SPIFF (1)	27,367,582	27,335,387	(32,195)	1.0	0.9
Telecommunication Services	20,485,956	21,993,600	1,507,644	0.8	0.7
Total	2,609,202,578	3,011,913,931	402,711,352	100.0	100.0

(1) Stock Performance Index Futures Fund - Includes Money Market & Cash

Montana Common Stock Pool Total Rates of Returns Versus Benchmark				
Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2005	5.19	S & P 500	6.32	(1.13)
3 Year Annualized Average	7.54	S & P 500	8.28	(0.74)
5 Year Annualized Average	(3.81)	S & P 500	(2.37)	(1.44)
10 Year Annualized Average	8.50	S & P 500	9.94	(1.44)

The returns shown above are returns on the large cap active stock portfolio managed internally by Board staff.



MONTANA INTERNATIONAL STOCK POOL (MTIP)

The Montana International Equity Pool (MTIP) was created during 1997 when the nine pension funds purchased pool shares to fund investments in international stock. Cash dividends, interest and related income currency gains/losses are distributed monthly.

The upper graph depicts the net asset value of the pool at June 30. The lower graph shows the fair value of the securities held by the pool by region.

The difference between the net asset value of the pool and the fair value of investments held is due to investments purchased but not yet paid for. Net asset value is reduced by the payable due for the purchase.

The MTIP distributed $8.5 million of income to participants in 2005, compared to $7.1 million in 2004. The MTIP financial statement, which lists the individual securities in the portfolio, is shown on Page B–40 in Appendix B.

The tables on the following pages show:

- The investment managers and the fair value of their securities portfolios,
- The changes in securities fair value by country,
- The book and fair values of securities portfolios by country, and
- The total rates of return by actively-managed securities portfolio.

Manager	Fair Value $
Barclay MSCI Europe Passively-Managed Equity Index	466,246,669
Pyrford Actively-Managed Europe	145,894,518
Schroder Actively-Managed Pacific Basin	135,472,671
Nomura Actively Managed Pacific Basin	110,950,385
Barclay MSCI Passively-Managed Equity Index Pacific Basin	50,628,249
Stock Performance Index Futures Fund\StateStreet Cash	84,326,128
Total International Portfolios	993,518,620

MTIP Annual Change At June 30

Country	2005 $ Fair Value	% of Total	2004 $ Fair Value	% of Total	$ Change	% Change
MSCI Europe Equity Index	466,246,670	46.9	389,188,268	45.6	77,058,403	19.8
Japan	143,770,620	14.5	162,411,275	19.0	(18,640,655)	(11.5)
DFA International Index	76,554,040	7.7	0	0.0	76,554,040	N/A
MSCI Pacific Basin Equity Index	50,628,249	5.1	46,167,935	5.4	4,460,314	9.7
United Kingdom	44,352,481	4.5	47,288,544	5.5	(2,936,062)	(6.2)
Switzerland	33,623,190	3.4	29,343,415	3.4	4,279,776	14.6
Australia	33,527,931	3.4	29,240,763	3.4	4,287,168	14.7
Spain	22,423,151	2.3	18,199,196	2.1	4,223,955	23.2
France	18,148,832	1.8	13,667,342	1.6	4,481,490	32.8
Taiwan	17,213,176	1.7	11,535,123	1.4	5,678,053	49.2
Netherlands	17,000,959	1.7	12,545,059	1.5	4,455,900	35.5
Hong Kong	16,060,009	1.6	16,301,745	1.9	(241,737)	(1.5)
Korea	15,967,519	1.6	14,957,725	1.8	1,009,794	6.8
Ireland	8,037,194	0.8	3,652,301	0.4	4,384,893	120.1
Singapore	7,043,624	0.7	5,929,777	0.7	1,113,847	18.8
US $ Cash	5,660,782	0.6	4,607,906	0.5	1,052,876	22.8
Malaysia	3,932,518	0.4	5,680,686	0.7	(1,748,168)	(30.8)
Germany	3,242,393	0.3	2,863,556	0.3	378,836	13.2
Thailand	2,875,184	0.3	3,156,126	0.4	(280,943)	(8.9)
SPIFF (1)	2,111,305	0.2	31,685,217	3.7	(29,573,912)	(93.3)
Philippines	2,002,694	0.2	183,957	0.0	1,818,737	988.7
Portugal	1,311,352	0.1	0	0.0	1,311,352	N/A
Indonesia	998,207	0.1	802,656	0.1	195,551	24.4
New Zealand	786,540	0.1	1,162,663	0.1	(376,123)	(32.4)
Belgium	0	0.0	3,366,124	0.4	(3,366,124)	(100.0)
Total	$993,518,620	100.0	$853,937,359	100.0	$139,581,262	16.3

(1) Stock Performance Index Futures Fund

MTIP Book/Fair Values At June 30, 2005

Country	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
MSCI Europe Equity Index	384,025,081	466,246,670	82,221,589	45.7	46.9
Japan	131,598,475	143,770,620	12,172,146	15.7	14.5
DFA International Index	75,484,090	76,554,040	1,069,950	9.0	7.7
MSCI Pacific Basin Equity Index	40,005,322	50,628,249	10,622,927	4.8	5.1
United Kingdom	38,699,087	44,352,481	5,653,394	4.6	4.5
Switzerland	31,166,439	33,623,190	2,456,751	3.7	3.4
Australia	23,921,155	33,527,931	9,606,776	2.8	3.4
Spain	14,919,219	22,423,151	7,503,932	1.8	2.3
France	12,332,455	18,148,832	5,816,377	1.5	1.8
Taiwan	15,105,035	17,213,176	2,108,141	1.8	1.7
Netherlands	14,525,106	17,000,959	2,475,853	1.7	1.7
Hong Kong	13,056,195	16,060,009	3,003,813	1.6	1.6
Korea	11,249,747	15,967,519	4,717,772	1.3	1.6
Ireland	6,993,655	8,037,194	1,043,539	0.8	0.8
Singapore	6,095,494	7,043,624	948,130	0.7	0.7
US $ Cash	5,660,782	5,660,782	0	0.7	0.6
Malaysia	3,775,289	3,932,518	157,229	0.4	0.4
Germany	2,450,982	3,242,393	791,410	0.3	0.3
Thailand	2,380,376	2,875,184	494,807	0.3	0.3
SPIFF (1)	2,123,299	2,111,305	(11,994)	0.3	0.2
Philippines	1,861,685	2,002,694	141,010	0.2	0.2
Portugal	1,327,808	1,311,352	(16,456)	0.2	0.1
Indonesia	696,380	998,207	301,827	0.1	0.1
New Zealand	678,827	786,540	107,713	0.1	0.1
Total	840,131,984	993,518,620	153,386,637	100.0	100.0

(1) Stock Performance Index Futures Fund

MTIP 2005 Total Rates of Returns By Active Manager Versus Benchmarks

Manager	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Schroder Capital Management	9.19	Montana Custom Pacific	9.39	(0.20)
Nomura Asset Management	9.53	Montana Custom Pacific	9.39	0.14
Pyrford International	15.59	MSCI Europe	16.87	(1.28)
All International (1)	14.33	MSCI EAFE	13.65	0.68

(1) Includes Passive Management

MTIP Annual Average Total Rates of Returns From Inception

Year	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
2005	14.33	MSCI EAFE	13.65	0.68
3 Year Annualized Average	12.61	MSCI EAFE	12.06	0.55
5 Year Annualized Average	1.64	MSCI EAFE	(0.55)	2.19

MONTANA PRIVATE EQUITY POOL (MPEP) The Montana Private Equity Pool was created on May 1, 2002 when all private equity investments held by the nine pension funds were transferred to the pool. Each pension fund received shares in the pool equal to the fair value of their private equity investments and also transferred cash to the pool to provide for investment purposes. The MPEP financial statement, which lists the portfolio, is shown on Page B-54 in Appendix B.

MPEP Participant Change At June 30

Fund	2005 $ NAV	% of Total	2004 $ NAV	% of Total	$ Change	% Change
Public Employees	150,594,502	50.6	128,797,003	50.6	21,797,499	16.9
Teachers	116,621,027	39.2	99,740,950	39.2	16,880,077	16.9
Police	7,137,953	2.4	6,104,784	2.4	1,033,169	16.9
Sheriffs	6,940,554	2.3	5,935,957	2.3	1,004,597	16.9
Firefighters	6,797,319	2.3	5,813,455	2.3	983,864	16.9
Highway Patrol	3,946,191	1.3	3,375,008	1.3	571,184	16.9
Judges	2,228,865	0.7	1,906,253	0.7	322,613	16.9
Game Wardens	2,170,182	0.7	1,856,063	0.7	314,119	16.9
Vol. Firefighters	991,926	0.3	848,352	0.3	143,574	16.9
Total Investments	297,428,519	100.0	254,377,825	100.0	43,050,695	16.9

MPEP Change At June 30 by Manager

Manager/Investment Type	2005 $ Fair Value	% of Total	2004 $ Fair Value	% of Total	$ Change	% Change
Adams Street Partners	113,401,916	38.1	80,488,832	31.1	32,913,084	40.9
Kolberg Kravis & Roberts (KKR)	62,188,362	20.9	80,094,236	31.0	(17,905,874)	(22.4)
SPIFF (1)	32,627,325	11.0	24,229,851	9.4	8,397,474	34.7
Lexington Capital	32,388,833	10.9	17,820,972	6.9	14,567,861	81.7
Welsh Carson Anderson&Stowe	19,634,646	6.6	12,717,565	4.9	6,917,081	54.4
Oaktree Capital	16,896,984	5.7	32,498,809	12.6	(15,601,825)	(48.0)
Madison Dearborn Capital	11,569,961	3.9	8,551,924	3.3	3,018,037	35.3
Arclight Capital	4,712,780	1.6	2,076,300	0.8	2,636,480	127.0
Odyssey Partners	4,127,031	1.4	0	0.0	4,127,031	N/A
Intermountain	83,333	0.0	0	0.0	83,333	N/A
Carlyle Partners	7,000	0.0	0	0.0	7,000	N/A
Total Investments	297,638,172	100.0	258,478,490	100.0	39,159,682	15.2

(1) Stock Performance Index Futures Fund

MPEP Book/Fair Values At June 30, 2005 by Manager

Manager/Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Adams Street Partners	124,366,507	113,401,916	(10,964,591)	45.6	38.1
Kolberg Kravis & Roberts (KKR)	58,287,981	62,188,362	3,900,381	21.4	20.9
SPIFF (1)	32,598,608	32,627,325	28,717	11.9	11.0
Lexington Capital	21,520,090	32,388,833	10,868,743	7.9	10.9
Welsh Carson Anderson&Stowe	15,954,898	19,634,646	3,679,748	5.8	6.6
Oaktree Capital	1	16,896,984	16,896,983	0.0	5.7
Madison Dearborn Capital	11,343,592	11,569,961	226,369	4.2	3.9
Arclight Capital	4,202,766	4,712,780	510,014	1.5	1.6
Odyssey Partners	4,464,155	4,127,031	(337,124)	1.6	1.4
Intermountain	83,333	83,333	0	0.0	0.0
Carlyle Partners	7,000	7,000	0	0.0	0.0
Total Investments	272,828,932	297,638,172	24,809,240	100.0	100.0

(1) Stock Performance Index Futures Fund

MPEP Total Rates of Returns Versus Benchmark

Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2005	**17.89**	**S&P 1500 + 4.0%**	**11.23**	**6.66**
3 Year Annualized Average	**16.80**	**S&P 1500 + 4.0%**	**12.90**	**3.90**

Private equity investments are participations in non-publicly traded equity ownership of a fund or operating company either directly or more commonly through a partnership. As of June 30, 2005, ten private equity managers invested the pool's assets.

Adams Street Partners – A fund-of-fund investment manager, formerly, Brinson Partners offers a wide range of private equity capital investment alternatives.

Kolberg, Kravis & Roberts - A global leveraged-buyout firm organized in 1975 that seeks investment opportunities in a wide-range of industries.

Madison-Dearborn Partners - A private equity investment firm, founded in 1992, that seeks growth equity transactions and management buyout opportunities in a wide range of industries.

Welsh Carson Anderson Stowe - A leveraged-buyout firm founded in 1979 focused on information services, communications and healthcare industries.

Lexington Partners – A private equity firm, founded in 1994, specializing in secondary investments that provide liquidity to owners of domestic and international private equity limited partnerships. The firm also co-investments with other private equity sponsors and invests in newly-formed private equity partnerships.

Oaktree Capital Management – A firm investing in distressed debt, high yield, and convertible securities markets. The Board invested $75.0 million with the firm in September 2002.

Arclight Capital Partners – Established in 2001, the firm is one of the leading private investment firms focused exclusively on the electric power industry.

CSFB – Customized Fund Investment Group – A division of Credit Suisse First Boston, one of the largest managers of private capital in the world, that provides customized private equity services to institutional clients who require tailor-made solutions to their private equity allocations.

Odyssey Investment Partners – A leading private equity investment firm organized in 1998 that makes majority, control investments primarily in established middle-market companies in a variety of industries.

The Carlyle Group – A global private investment firm, established in 1987, that originates, structures and acts as lead equity investor in management-led buyouts, strategic minority equity investments, equity private placements, consolidations and buildups, and growth capital financings.

The types of investments made by private equity managers generally fall into the following categories:

Private Equity – Private equity investments in funds or operating companies in an asset class other than cash, stocks, or fixed income securities and real estate.

Venture Capital – Equity or equity-like investments in companies that have undeveloped or developing products or revenue.

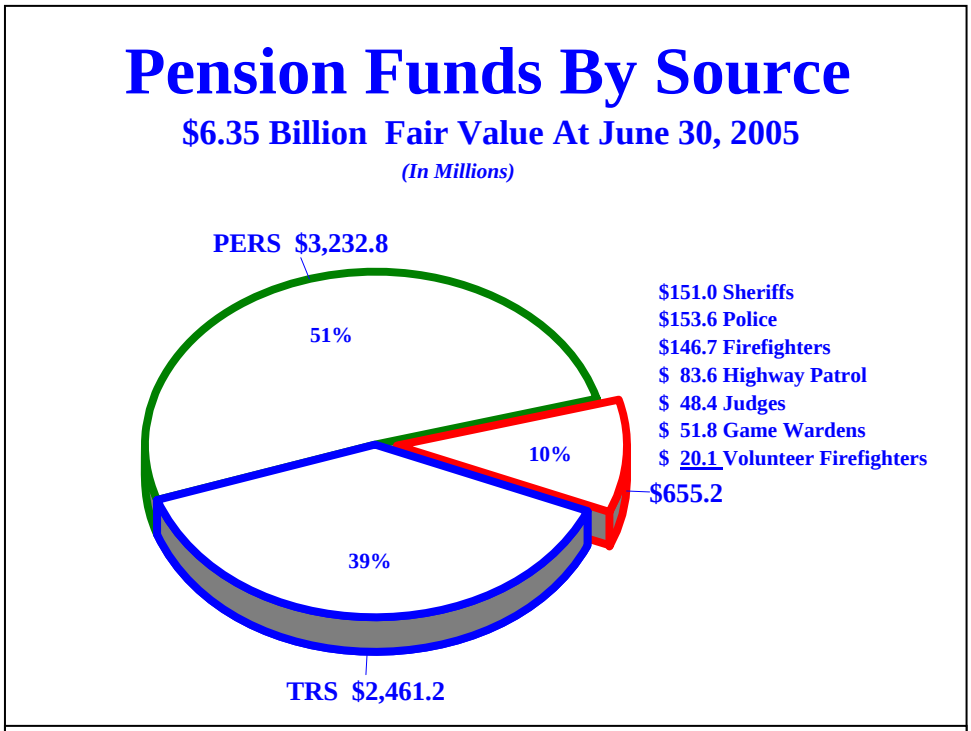
Leveraged Buy-Outs – Equity investments in public or private companies that purchase a significant portion or majority control of the company.

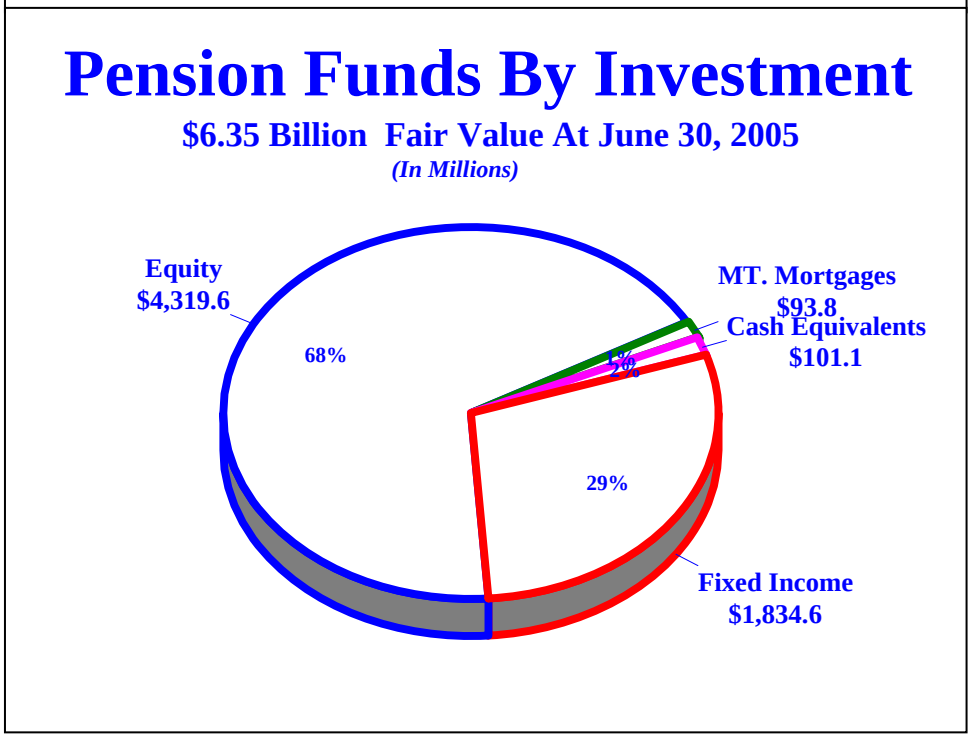
Mezzanine – Investments in the subordinated debt and/or equity of privately owned companies. The debt holder participates in equity appreciation through conversion features, such as rights, warrants, and/or options.

Special Situations – Includes: 1) investments in the exploration for oil and/or gas reserves or in the development of proven reserves; 2) investments in land to harvest timber; and 3) investments that have a special component usually related to geographical, economic, or social issues sometimes referred to as Economically Targeted Investments.

Secondary Investments – Investments in a previously-owned limited partnership or investment in previously owned limited partnership via a secondary fund.

Distressed Debt – Public and private debt of companies that appear unlikely to meet their financial obligations but are attractive to investors, not for repayment of interest and principal which are unlikely to be paid, but for the claim placed on the firm's value by unpaid creditors.





PENSION FUNDS

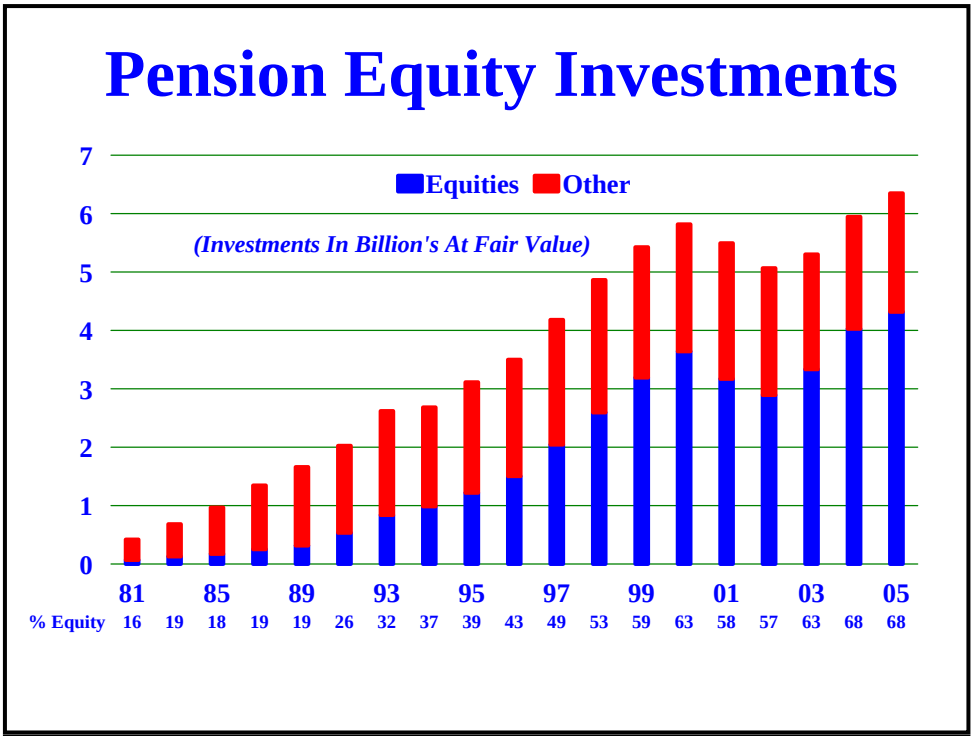
By law, all public pension funds in the state, including local governments and school districts, are managed by the state. The Board of Investments manages all pension fund investments. Pension fund operations are administered by two boards appointed by the Governor.

The upper Graph depicts the state's nine pension fund investment portfolios at fair value as of June 30. The lower graph depicts total pension fund investments by major investment type.

The Teachers' Retirement Board manages the Teachers' Retirement System (TRS), while the Public Employees' Retirement Board manages the other eight systems.

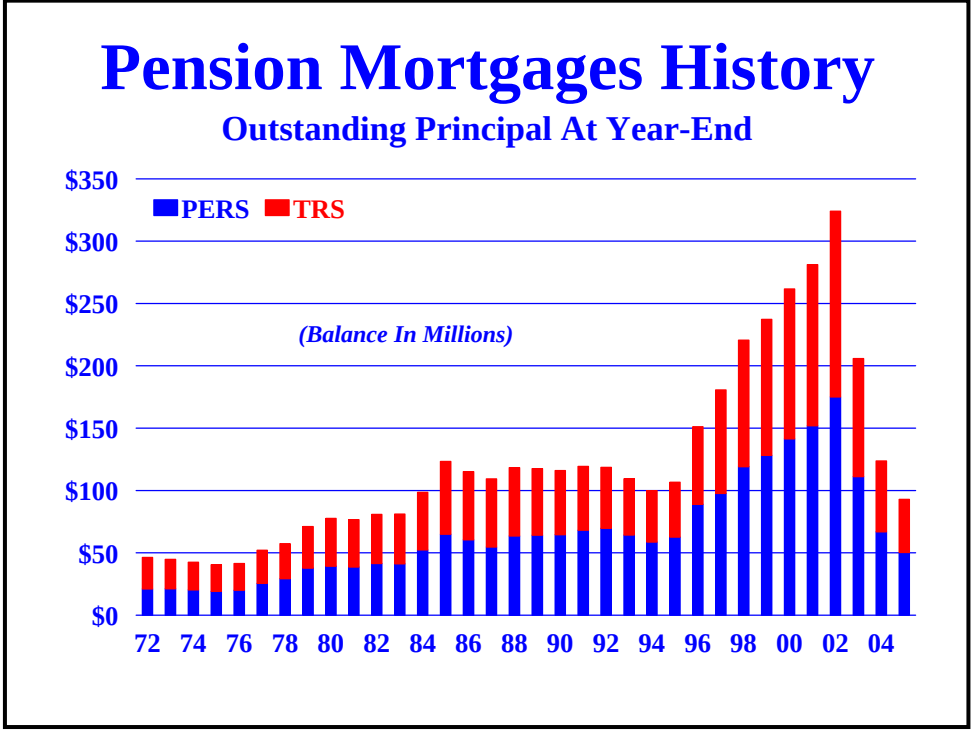
As of June 30 approximately 98 percent of pension fund investments at fair value were managed in various investment pools created by the Board. These pools, which operate similar to mutual funds, simplify investing and accounting, and provide broader diversification for the smaller funds. Income is distributed monthly to pool participants.

The pension funds earned $187.4 million on their investments in 2005, compared to $315.9 million in 2004. The total rate of return of each fund is shown on the following pages.



The Board has increased pension investments in equities in recent years to increase the total rate of return. The current target is 67 percent of the fair value of pension investments.

Declining equity prices reduced fair value of total pension fund investments from 2001 through 2003. Pension fund assets of $5.95 billion in 2004 finally surpassed the 2000 value at the peak of the stock market bubble.



During 2001 through 2003 the Board actively sold fixed-income investments and invested the sale proceeds in the equity markets.

This rebalancing and a resurgent of domestic and international stock markets brought pension fund equity allocation to 68 percent of total pension fund investments in 2004.

From 1994 to 2002, the Board significantly increased pension investments in Montana mortgages. Mortgages investments peaked at $324.0 million in 2002. From 2003 through 2005, mortgage rates on the secondary market declined to less than 6 percent and the Board declined to purchase mortgages for the pension funds at these rates. This policy, combined with significant mortgage re-financings caused a significant drop in the pension mortgage portfolio to $92.9 million at year-end 2005.

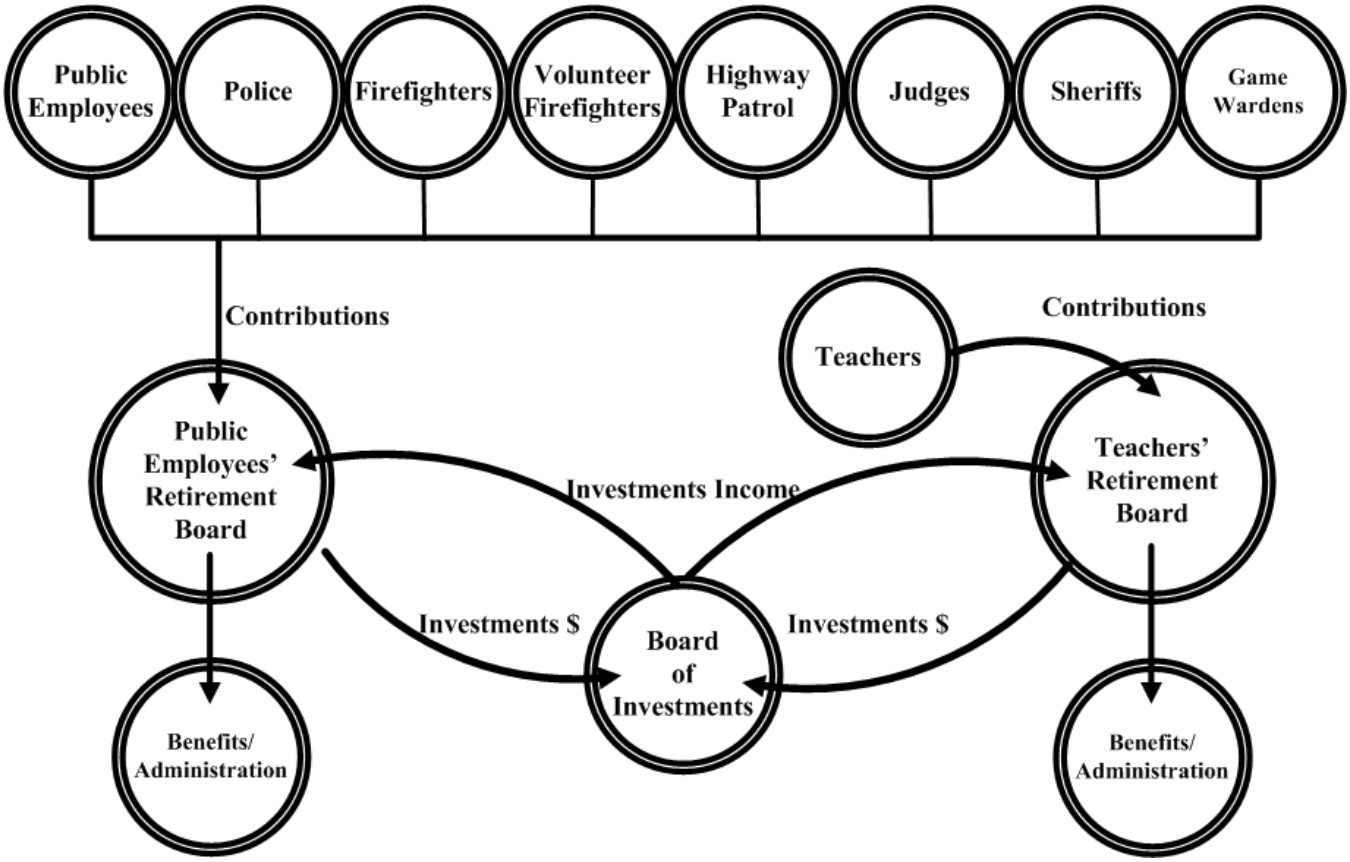
Pension Funds Annual Book Value Change At June 30

Fund	2005 $ Book Value	% of Total	2004 $ Book Value	% of Total	$ Change	% of Change
Public Employees	2,339,869,014	50.8	2,275,920,567	50.6	63,948,447	2.8
Teachers	1,763,665,585	38.3	1,742,566,496	38.8	21,099,089	1.2
Police	118,153,666	2.6	112,592,929	2.5	5,560,738	4.9
Sheriffs	115,023,467	2.5	111,178,424	2.5	3,845,042	3.5
Firefighters	113,713,015	2.5	108,238,534	2.4	5,474,481	5.1
Highway Patrol	61,546,174	1.3	60,068,673	1.3	1,477,500	2.5
Game Wardens	40,208,227	0.9	35,824,914	0.8	4,383,313	12.2
Judges	35,753,937	0.8	34,442,726	0.8	1,311,210	3.8
Volunteer Firefighters	16,448,235	0.4	15,836,424	0.4	611,812	3.9
Total	4,604,381,321	100.0	4,496,669,688	100.0	107,711,633	2.4
Investment Type						
Fixed Income (RFBP)	1,771,243,348	38.5	1,552,243,348	34.5	219,000,000	14.1
Equities	2,639,072,488	57.3	2,626,643,102	58.4	12,429,386	0.5
Cash Equivalents (STIP)	101,126,032	2.2	194,163,866	4.3	(93,037,834)	(47.9)
Montana Mortgages	92,939,453	2.0	123,619,372	2.7	(30,679,919)	(24.8)
Total	4,604,381,321	100.0	4,496,669,688	100.0	107,711,633	2.4

Pension Funds Annual Fair Value Change At June 30

Fund	2005 $ Fair Value	% of Total	2004 $ Fair Value	% of Total	$ Change	% of Change
Public Employees	3,232,788,978	50.9	3,017,022,856	50.7	215,766,122	7.2
Teachers	2,461,155,345	38.8	2,327,167,274	39.1	133,988,071	5.8
Police	153,724,535	2.4	140,725,594	2.4	12,998,941	9.2
Sheriffs	151,006,508	2.4	139,910,633	2.4	11,095,875	7.9
Firefighters	146,685,522	2.3	134,140,179	2.3	12,545,343	9.4
Highway Patrol	83,578,823	1.3	78,310,865	1.3	5,267,957	6.7
Game Wardens	51,750,698	0.8	45,057,186	0.8	6,693,511	14.9
Judges	48,424,100	0.8	44,795,416	0.8	3,628,684	8.1
Volunteer Firefighters	20,063,456	0.3	18,612,738	0.3	1,450,718	7.8
Total	6,349,177,964	100.0	5,945,742,742	100.0	403,435,222	6.8
Investment Type						
Fixed Income (RFBP)	1,834,620,222	28.9	1,599,757,615	26.9	234,862,607	14.7
Equities	4,319,620,513	68.0	4,028,200,396	67.7	291,420,117	7.2
Cash Equivalents (STIP)	101,126,032	1.6	194,163,866	3.3	(93,037,834)	(47.9)
Montana Mortgages	93,811,197	1.5	123,620,864	2.1	(29,809,668)	(24.1)
Total	6,349,177,964	100.0	5,945,742,742	100.0	403,435,222	6.8

The chart on the next page depicts the relationship of the two state Pension Boards to the Board of Investments in managing the state's nine pension fund assets and liabilities.



As depicted in the above chart the employee/employer contributions are collected by the two Pension Boards that administer the benefits. The actual employee/employer contribution levels and the formulas for benefits are set by law. The Pension Boards hire actuarial firms to value the nine systems and provide the assumptions used by the actuary in the valuations. The actuary determines the "soundness" of the systems based on the assumptions. Article VIII, Section 15 of the Montana State Constitution requires that the systems be "actuarially sound" as follows:

> *(1) Public retirement systems shall be funded on an actuarially sound basis. Public retirement system assets, including income and actuarially required contributions, shall not be encumbered, diverted, reduced, or terminated and shall be held in trust to provide benefits to participants and their beneficiaries and to defray administrative expenses.*
>
> *(2) The governing boards of public retirement systems shall administer the system, including actuarial determinations, as fiduciaries of system participants and their beneficiaries.*

State law defines a system as actuarially sound when its unfunded liability, if any, can be amortized in 30 years or less with the current level of contributions. As of June 30, 2005, four of the state's nine pension funds were not actuarially sound as determined by the system's actuaries. These systems were:

- The Public Employees' Retirement System
- The Teachers' Retirement System
- The Sheriffs' Retirement System
- The Game Wardens' and Peace Officers Retirement System

The tables on the following pages show information on the nine systems.

Membership

PERS	6/30/2005	6/30/2004
Retirees & Beneficiaries	15,220	14,834
Vested Terminated	2,418	2,362
Non-vested Terminated	8,153	9,132
Active Members	28,213	28,201
Total	**54,004**	**54,529**

Sheriffs	6/30/2005	6/30/2004
Retirees & Beneficiaries	340	323
Vested Terminated	42	41
Non-vested Terminated	81	73
Active Members	680	662
Total	**1,143**	**1,099**

Firefighters	6/30/2005	6/30/2004
Retirees & Beneficiaries	504	498
Vested Terminated	13	10
Non-vested Terminated	50	48
Active Members	444	438
Total	**1,011**	**994**

Highway Patrol	6/30/2005	6/30/2004
Retirees & Beneficiaries	276	274
Vested Terminated	10	8
Non-vested Terminated	9	11
Active Members	201	194
Total	**496**	**487**

Game Wardens	6/30/2005	6/30/2004
Retirees & Beneficiaries	94	85
Vested Terminated	22	18
Non-vested Terminated	81	95
Active Members	711	685
Total	**908**	**883**

Volunteer Firefighters	6/30/2005	6/30/2004
Retirees & Beneficiaries	966	944
Vested Terminated	687	671
Active Members	2,754	2,687
Total	**4,407**	**4,302**

Judges	6/30/2005	6/30/2004
Retirees & Beneficiaries	49	50
Vested Terminated	4	4
Non-vested Terminated	-	-
Active Members	50	50
Total	**103**	**104**

Teachers	6/30/2005	6/30/2004
Retirees & Beneficiaries	10,664	10,375
Vested Terminated	1,649	1,620
Non-vested Terminated		
Active Members	17,542	17,614
Total	**29,855**	**29,609**

Police	6/30/2005	6/30/2004
Retirees & Beneficiaries	575	571
Vested Terminated	26	20
Non-vested Terminated	35	38
Active Members	605	603
Total	**1,241**	**1,232**

Total	6/30/2005	6/30/2004
Retirees & Beneficiaries	28,688	27,954
Vested Terminated	4,871	4,754
Non-vested Terminated	8,409	9,397
Active Members	51,200	51,134
Nine System Total	**93,168**	**93,239**

Assets and Liabilities
(In Thousands $)

PERS	6/30/2005	6/30/2004
Actuarial Liability	3,719,998	3,514,085
Actuarial Assets	3,179,010	3,047,287
Unfunded Actuarial Liability	**540,988**	**466,798**
Funded Ratio	**85.46%**	**86.72%**

Sheriffs	6/30/2005	6/30/2004
Actuarial Liability	159,347	148,608
Actuarial Assets	148,458	141,022
Unfunded Actuarial Liability	**10,889**	**7,586**
Funded Ratio	**93.17%**	**94.90%**

Firefighters	6/30/2005	6/30/2004
Actuarial Liability	238,157	227,599
Actuarial Assets	151,393	142,109
Unfunded Actuarial Liability	**86,764**	**85,490**
Funded Ratio	**63.57%**	**62.44%**

Highway Patrol	6/30/2005	6/30/2004
Actuarial Liability	112,938	104,069
Actuarial Assets	82,050	79,104
Unfunded Actuarial Liability	**30,888**	**24,965**
Funded Ratio	**72.65%**	**76.01%**

Game Wardens	6/30/2005	6/30/2004
Actuarial Liability	56,414	50,310
Actuarial Assets	50,961	45,210
Unfunded Actuarial Liability	**5,453**	**5,100**
Funded Ratio	**90.33%**	**89.86%**

Volunteer Firefighters	6/30/2005	6/30/2004
Actuarial Liability	30,773	28,680
Actuarial Assets	21,311	20,058
Unfunded Actuarial Liability	**9,462**	**8,622**
Funded Ratio	**69.25%**	**69.94%**

Judges	6/30/2005	6/30/2004
Actuarial Liability	34,525	34,724
Actuarial Assets	47,552	45,134
Unfunded Actuarial Liability	**(13,027)**	**(10,410)**
Funded Ratio	**137.73%**	**129.98%**

Teachers	6/30/2005	6/30/2004
Actuarial Liability	3,527,000	3,359,200
Actuarial Assets	2,497,500	2,485,700
Unfunded Actuarial Liability	**1,029,500**	**873,500**
Less University Contributions	126,200	115,700
TRS Actuarial Liability	**903,300**	**757,800**

Police	6/30/2005	6/30/2004
Actuarial Liability	276,379	260,094
Actuarial Assets	159,417	149,510
Unfunded Actuarial Liability	**116,962**	**110,584**
Funded Ratio	**57.68%**	**57.48%**

Cash Flow
(In Thousands $)

PERS	2005	2004
Employees	66,986	62,664
Employers	60,454	58,231
State	421	403
Contributions	**127,861**	**121,298**
Benefits/Administration	**(160,109)**	**(148,303)**
Cash Flow	**(32,248)**	**(27,005)**

Sheriffs	2005	2004
Employees	2,988	2,685
Employers	2,813	2,684
Contributions	**5,801**	**5,369**
Benefits/Administration	**(6,218)**	**(5,276)**
Cash Flow	**(417)**	**93**

Firefighters	2005	2004
Employees	2,330	2,213
Employers	2,959	2,796
State	6,719	6,533
Contributions	**12,008**	**11,542**
Benefits/Administration	**(10,540)**	**(9,806)**
Cash Flow	**1,468**	**1,736**

Highway Patrol	2005	2004
Employees	862	743
Employers	3,324	2,859
Fees	669	348
Contributions	**4,855**	**3,950**
Benefits/Administration	**(6,049)**	**(5,820)**
Cash Flow	**(1,194)**	**(1,870)**

Game Wardens	2005	2004
Employees	3,023	2,714
Employers	2,054	2,021
Contributions	**5,077**	**4,735**
Benefits/Administration	**(2,194)**	**(2,006)**
Cash Flow	**2,883**	**2,729**

Volunteer Firefighters	2005	2004
State	1,527	1,434
Contributions	**1,527**	**1,434**
Benefits/Administration	**(1,575)**	**(1,531)**
Cash Flow	**(48)**	**(97)**

Judges	2005	2004
Employees	412	443
Employers	1,162	1,136
Contributions	**1,574**	**1,579**
Benefits/Administration	**(1,633)**	**(1,684)**
Cash Flow	**(59)**	**(105)**

Teachers	2005	2004
Employees	52,900	51,383
Employers	57,150	55,774
State	656	770
Total Contributions	**110,706**	**107,927**
Benefits/Administration	**(167,149)**	**(158,510)**
Cash Flow	**(56,442)**	**(50,583)**

Police	2005	2004
Employees	2,425	2,313
Employers	3,791	3,612
State	7,705	7,208
Contributions	**13,921**	**13,133**
Benefits/Administration	**(12,226)**	**(11,344)**
Cash Flow	**1,695**	**1,789**

Total	2005	2004
Members	131,926	125,158
Employers	133,707	129,113
State/Other	17,697	16,696
Contributions	**283,330**	**270,967**
Benefits/Administration	**(367,693)**	**(344,280)**
Cash Flow	**(84,362)**	**(73,313)**

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

PERS Annual Book Value Change At June 30

Investment Type	2005 $ Book Value	% of Total	2004 $ Book Value	% of Total	$ Change	% of Change
Fixed Income (RFBP)	898,495,210	38.4	781,895,210	34.4	116,600,000	14.9
Domestic Stock Pool	795,839,836	34.0	800,450,411	35.2	(4,610,575)	(0.6)
International Stock Pool	406,553,000	17.4	393,914,000	17.3	12,639,000	3.2
Montana Private Equity Pool	122,267,864	5.2	122,267,864	5.4	0	0.0
Equity Real Estate	8,413,771	0.4	8,295,827	0.4	117,944	1.4
Total Equity	1,333,074,470	57.0	1,324,928,102	58.2	8,146,369	0.6
Cash Equivalents (STIP)	50,187,304	2.1	102,342,795	4.5	(52,155,490)	(51.0)
Montana Mortgages	58,112,029	2.5	66,754,461	2.9	(8,642,432)	(12.9)
Total	2,339,869,014	100.0	2,275,920,567	100.0	63,948,447	2.8

PERS Annual Fair Value Change At June 30

Investment Type	2005 $ Fair Value	% of Total	2004 $ Fair Value	% of Total	$ Change	% of Change
Fixed Income (RFBP)	930,369,190	28.8	805,839,505	26.7	124,529,685	15.5
Domestic Stock Pool	1,529,417,961	47.3	1,469,962,551	48.7	59,455,410	4.0
International Stock Pool	505,111,709	15.6	434,916,502	14.4	70,195,206	16.1
Montana Private Equity Pool	150,594,643	4.7	128,797,026	4.3	21,797,617	16.9
Equity Real Estate	8,525,400	0.3	8,409,210	0.3	116,190	1.4
Total Equity	2,193,649,712	67.9	2,042,085,289	67.7	151,564,423	7.4
Cash Equivalents (STIP)	50,658,046	1.6	102,342,795	3.4	(51,684,748)	(50.5)
Montana Mortgages	58,112,029	1.8	66,755,267	2.2	(8,643,238)	(12.9)
Total	3,232,788,978	100.0	3,017,022,856	100.0	215,766,122	7.2

PERS Book/Fair Values At June 30, 2005

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Fixed Income (RFBP)	898,495,210	930,369,190	31,873,980	38.4	28.8
Domestic Stock Pool	795,839,836	1,529,417,961	733,578,125	34.0	47.3
International Stock Pool	406,553,000	505,111,709	98,558,709	17.4	15.6
Montana Private Equity Pool	122,267,864	150,594,643	28,326,780	5.2	4.7
Equity Real Estate	8,413,771	8,525,400	111,629	0.4	0.3
Total Equity	1,333,074,470	2,193,649,712	860,575,242	57.0	67.9
Montana Mortgages	50,187,304	50,658,046	470,742	2.1	1.6
Cash Equivalents (STIP)	58,112,029	58,112,029	0	2.5	1.8
Total	2,339,869,014	3,232,788,978	892,919,964	100.0	100.0

PERS Net Income By Source

Income Type	2005 $ Income	% Of Total	2004 $ Income	% Of Total	$ Change	% Change
Retirement Funds Bond Pool	60,109,224	61.4	57,048,864	35.4	3,060,360	5.4
Domestic Stock Pool	19,789,762	20.2	17,213,144	10.7	2,576,617	15.0
International Stock Pool	5,668,792	5.8	4,741,267	2.9	927,525	19.6
Gain on Sale of Pool Units	4,389,425	4.5	34,485,681	21.4	(30,096,255)	(87.3)
Montana Mortgages	3,684,453	3.8	5,327,515	3.3	(1,643,062)	(30.8)
Montana Private Equity Pool	1,997,076	2.0	40,833,740	25.4	(38,836,664)	NA
Short Term Investment Pool	1,612,559	1.6	797,817	0.5	814,742	102.1
Equity Real Estate	664,008	0.7	487,235	0.3	176,773	36.3
All Other Funds	729	0.0	0	0.0	729	N/A
Total Gross Income	97,916,029	100.0	160,935,264	100.0	(63,019,236)	(39.2)
Board Management Fees	(1,029,823)		(1,006,576)		(23,247)	2.3
Custodial Bank Fees	(288,147)		(260,801)		(27,346)	10.5
External Manager Fees	(3,460,105)		(2,493,624)		(966,481)	38.8
Total Net Income	93,137,953		157,174,263		(64,036,310)	(40.7)

PERS 2005 Total Rates of Returns By Asset

Asset Class	% Return	Market Index	Index % Return	Return +/- Index
Cash Equivalents (STIP)	2.30	91-Day T Bill * 1.05	2.42	(0.12)
Domestic Stock Pool	5.95	S&P 1500 Index	7.23	(1.28)
Internal International Pool	13.95	MSCI EAFE	13.65	0.30
Private Equity Pool	16.84	S&P 1500 Index + 4%	11.23	5.61
Fixed Income (RFBP)	8.02	CitiGroup Broad Investment	7.00	1.02
Montana Mortgages	7.60	NA	NA	NA
Equity Real Estate	7.75	NA	NA	NA
All Assets	8.13	Composite (1)	7.89	0.24

(1) An Index Composite Paralleling the Fund's Asset Allocation at Fair Value

PERS Historical Rates of Returns Versus Benchmark

Year	% Return	Benchmark (1)	Benchmark % Return	Return +/- Benchmark
2005	8.13	PERS Composite	7.89	0.24
3 Year Annualized Average	9.35	PERS Composite	8.69	0.66
5 Year Annualized Average	2.87	PERS Composite	3.01	(0.14)
10 Year Annualized Average	8.16	PERS Composite	8.23	(0.07)

(1) An Index Composite Parallelling the Fund's Asset Allocation At Fair Value

PERS invested balances and income history are shown on Page A-17 in Appendix A

TEACHERS' RETIREMENT SYSTEM FUND (TRS)

TRS Annual Book Value Change At June 30

Investment Type	2005 $ Book Value	% of Total	2004 $ Book Value	% of Total	$ Change	% of Change
Fixed Income (RFBP)	678,652,977	38.5	597,952,977	34.3	80,700,000	13.5
Domestic Stock Pool	600,682,625	34.1	608,749,512	34.9	(8,066,887)	(1.3)
International Stock Pool	311,631,000	17.7	303,644,000	17.4	7,987,000	2.6
Montana Private Equity Pool	94,424,972	5.4	94,424,972	5.4	0	0.0
Equity Real Estate	7,902,459	0.4	7,797,114	0.4	105,344	1.4
Total Equity	1,014,641,056	57.5	1,014,615,599	58.2	25,457	0.0
Montana Mortgages	42,752,148	2.4	56,864,911	3.3	(14,112,763)	(24.8)
Cash Equivalents (STIP)	27,619,404	1.6	73,133,009	4.2	(45,513,605)	(62.2)
Total	1,763,665,585	100.0	1,742,566,496	100.0	21,099,089	1.2

TRS Annual Fair Value Change At June 30

Investment Type	2005 $ Fair Value	% of Total	2004 $ Fair Value	% of Total	$ Change	% of Change
Fixed Income (RFBP)	704,451,127	28.6	617,565,665	26.5	86,885,462	14.1
Domestic Stock Pool	1,172,930,246	47.7	1,135,892,072	48.8	37,038,174	3.3
International Stock Pool	388,431,359	15.8	336,137,139	14.4	52,294,219	15.6
Montana Private Equity Pool	116,621,027	4.7	99,740,950	4.3	16,880,077	16.9
Equity Real Estate	7,949,031	0.3	7,832,840	0.3	116,190	1.5
Total Equity	1,685,931,663	68.5	1,579,603,002	67.9	106,328,661	6.7
Montana Mortgages	43,153,151	1.8	56,865,598	2.4	(13,712,447)	(24.1)
Cash Equivalents (STIP)	27,619,404	1.1	73,133,009	3.1	(45,513,605)	(62.2)
Total	2,461,155,345	100.0	2,327,167,274	100.0	133,988,071	5.8

TRS Book/Fair Values At June 30, 2005

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Fixed Income (RFBP)	678,652,977	704,451,127	25,798,150	38.5	28.6
Domestic Stock Pool	600,682,625	1,172,930,246	572,247,621	34.1	47.7
International Stock Pool	311,631,000	388,431,359	76,800,359	17.7	15.8
Montana Private Equity Pool	94,424,972	116,621,027	22,196,055	5.4	4.7
Equity Real Estate	7,902,459	7,949,031	46,572	0.4	0.3
Total Equity	1,014,641,056	1,685,931,663	671,290,607	57.5	68.5
Montana Mortgages	42,752,148	43,153,151	401,002	2.4	1.8
Cash Equivalents (STIP)	27,619,404	27,619,404	0	1.6	1.1
Total	1,763,665,585	2,461,155,345	697,489,759	100.0	100.0

TRS Net Income By Source

Income Type	2005 $ Income	% Of Total	2004 $ Income	% Of Total	$ Change	% Change
Retirement Funds Bond Pool	45,690,274	57.4	43,932,669	33.2	1,757,605	4.0
Domestic Stock Pool	15,247,032	19.2	13,394,947	10.1	1,852,085	13.8
Gain on Sale of Pool Units	7,933,114	10.0	34,026,864	25.7	(26,093,750)	(76.7)
International Stock Pool	4,363,847	5.5	3,725,609	2.8	638,238	17.1
Montana Mortgages	3,138,608	3.9	4,543,342	3.4	(1,404,734)	(30.9)
Montana Private Equity Pool	1,546,544	1.9	31,657,320	23.9	(30,110,776)	(95.1)
Short Term Investment Pool	1,003,700	1.3	536,131	0.4	467,570	87.2
Equity Real Estate	622,740	0.8	451,301	0.3	171,439	38.0
All Other Funds	621	0.0	0	0.0	621	N/A
Total Gross Income	79,546,482	100.0	132,268,183	100.0	(52,721,702)	(39.9)
Board Management Fees	(804,871)		(799,821)		(5,050)	0.6
Custodial Bank Fees	(221,029)		(203,113)		(17,916)	8.8
External Manager Fees	(2,675,189)		(1,945,859)		(729,330)	37.5
Total Net Income	75,845,392		129,319,390		(53,473,998)	(41.4)

TRS 2005 Total Rates of Return by Asset

Asset Class	% Return	Market Index	Index % Return	Return +/- Index
Cash Equivalents (STIP)	2.30	91-Day T Bill * 1.05	2.42	(0.12)
Domestic Stock Pool	5.95	S & P 1500 Index	7.23	(1.28)
Internal International Pool	13.95	MSCI EAFE	13.65	0.30
Private Equity Pool	16.84	S&P 1500 Index + 4%	11.23	5.61
Fixed Income (RFBP)	8.02	CitiGroup Broad Investment	7.00	1.02
Montana Mortgages	7.60	NA	NA	NA
Equity Real Estate	7.99	NA	NA	NA
All Assets	8.19	Composite (1)	7.95	0.24

(1) An Index Composite Paralleling the Fund's Asset Allocation at Fair Value

TRS Historical Rates of Returns Versus Benchmark

Year	% Return	Benchmark (1)	Benchmark % Return	Return Benchmark
2005	8.19	TRS Composite	7.95	0.24
3 Year Annualized Average	9.35	TRS Composite	8.56	0.79
5 Year Annualized Average	2.87	TRS Composite	2.94	(0.07)
10 Year Annualized Average	8.19	TRS Composite	8.23	(0.04)

(1) An Index Composite Parallelling the Fund's Asset Allocation At Fair Value

TRS invested balances and income history are shown on Page A-18 in Appendix A.

OTHER RETIREMENT SYSTEMS

Assets of Individual Pensions at June 30

Systems	2005 $ Fair Value	2004 $ Fair Value	2005 $ Book Value	2004 $ Book Value	Fair % Change	Book % Change
Police	153,724,535	140,725,594	118,153,666	112,592,929	9.2	4.9
Sheriffs	151,006,508	139,910,633	115,023,467	111,178,424	7.9	3.5
Firefighters	146,685,522	134,140,179	113,713,015	108,238,534	9.4	5.1
Highway Patrol	83,578,823	78,310,865	61,546,174	60,068,673	6.7	2.5
Game Wardens	51,750,698	45,057,186	40,208,227	35,824,914	14.9	12.2
Judges	48,424,100	44,795,416	35,753,937	34,442,726	8.1	3.8
Vol. Firefighters	20,063,456	18,612,738	16,448,235	15,836,424	7.8	3.9
Total	655,233,641	601,552,610	500,846,721	478,182,625	8.9	4.7

Other Pensions Annual Change At June 30

Investment Type	2005 $ Book Value	% of Total	2004 $ Book Value	% of Total	$ Change	% of Change
Fixed Income (RFBP)	194,095,162	38.8	172,395,162	36.1	21,700,000	12.6
Domestic Stock Pool	183,996,419	36.7	184,112,859	38.5	(116,440)	(0.1)
International Stock Pool	83,308,042	16.6	78,934,042	16.5	4,374,000	5.5
Montana Private Equity Pool	24,052,500	4.8	24,052,500	5.0	0	0.0
Total Equity	291,356,961	58.2	287,099,401	60.0	4,257,560	1.5
Cash Equivalents (STIP)	15,394,599	3.1	18,688,062	3.9	(3,293,463)	(17.6)
Total	500,846,721	100.0	478,182,625	100.0	22,664,096	4.7

Other Pensions Book/Fair Values At June 30, 2005

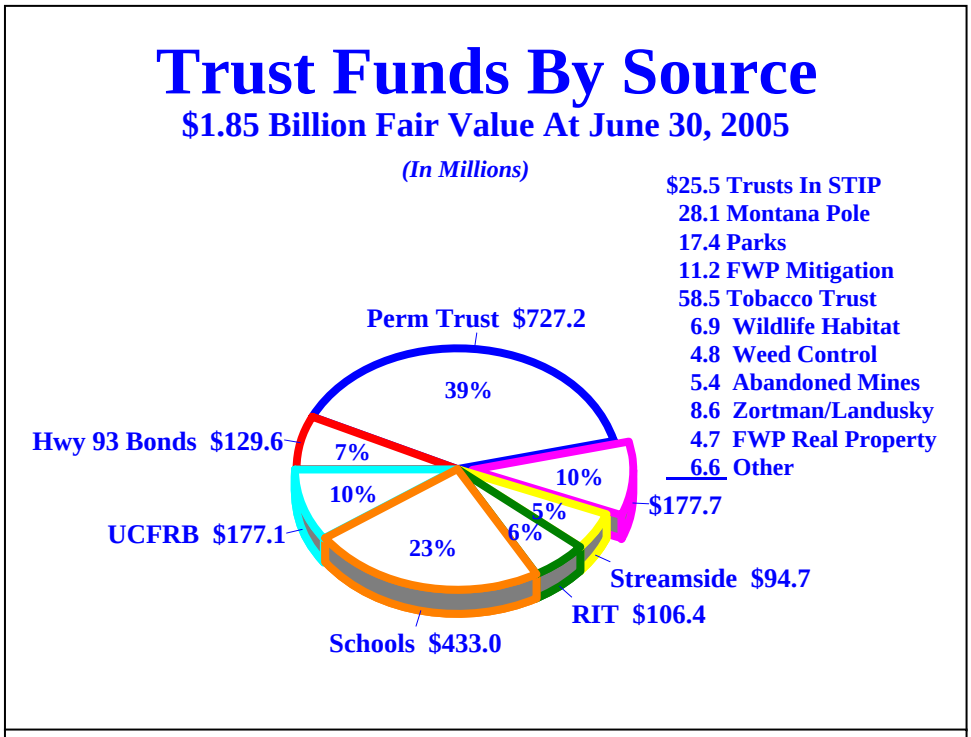
Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Fixed Income (RFBP)	194,095,162	199,799,905	5,704,743	38.8	30.5
Domestic Stock Pool	183,996,419	306,912,462	122,916,043	36.7	46.8
International Stock Pool	83,308,042	102,913,686	19,605,644	16.6	15.7
Montana Private Equity Pool	24,052,500	30,212,990	6,160,490	4.8	4.6
Total Equity	291,356,961	440,039,138	148,682,177	58.2	67.2
Cash Equivalents (STIP)	15,394,599	15,394,599	0	3.1	2.3
Total	500,846,721	655,233,641	154,386,920	100.0	100.0

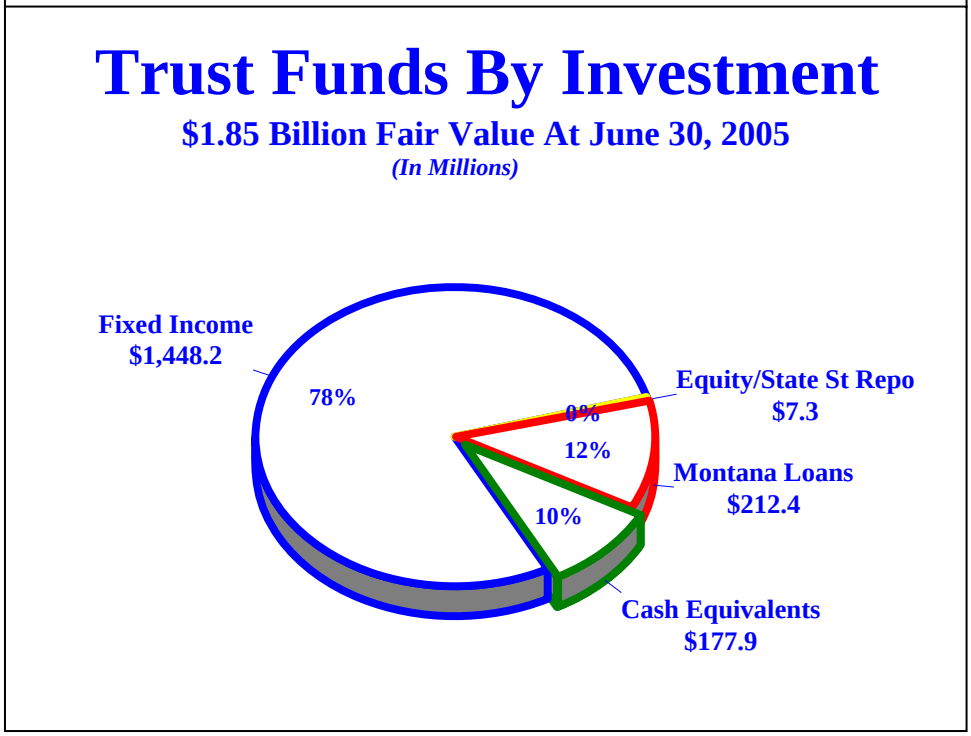
Other Retirement Systems 2005 Total Rates of Return

Fund	% Return	Index (1)	% Return	Fund +/-Index
Sheriffs	8.11	Composite	7.86	0.25
Police	7.99	Composite	7.74	0.25
Firefighters	7.99	Composite	7.74	0.25
Highway Patrol	8.19	Composite	7.93	0.26
Judges	8.11	Composite	7.85	0.26
Game Warden	7.87	Composite	7.64	0.23
Vol. Firefighters	7.88	Composite	7.62	0.26

(1) An Index Composite Paralleling the Fund's Asset Allocation at Fair Value

The seven other retirement funds are administered by the Public Employees' Retirement Board, the same Board that administers the Public Employees' Retirement System. These smaller systems participate with the Public Employees' Retirement Fund and the Teachers' Retirement Fund in all investment pools managed by the Board, but do not participate in the Montana Residential Mortgage Program or real estate investments.





TRUST FUNDS

The Board invests several trust funds, some of which are created and protected by the state constitution.

Other trusts have been created statutorily by the legislature or involve federal funds.

Several trust funds were established as a part of settlements between the state and private corporations to ensure environmental clean up of polluted sites.

The upper graph shows the various trust funds by type. The lower graph shows the trust fund investments by major asset class.

The table on the next page shows the change in the book value from 2004 to 2005 by individual trust fund.

Total Trust Funds Annual Change At June 30

Trust	2005 $ Book Value	% of Total	2004 $ Book Value	% of Total	$ Change	% Change
Permanent Coal Tax Trust (1)	708,371,742	39.7	691,224,790	42.0	17,146,952	2.5
Schools (Trust and Legacy)	410,653,937	23.0	410,653,937	24.9	0	0.0
UCFRB Restoration	154,963,038	8.7	149,266,177	9.1	5,696,861	3.8
Highway 93 Bond	129,656,706	7.3	0	0.0	129,656,706	N/A
Resource Indemnity Trust	100,254,844	5.6	100,000,776	6.1	254,068	0.3
Streamside Tailings	92,218,907	5.2	93,785,967	5.7	(1,567,059)	(1.7)
Tobacco Trust	57,901,622	3.2	46,756,451	2.8	11,145,171	23.8
Montana Pole	27,704,394	1.6	27,494,950	1.7	209,444	0.8
Trusts in STIP	25,475,484	1.4	47,431,218	2.9	(21,955,734)	(46.3)
Parks Trust	16,771,162	0.9	16,188,964	1.0	582,199	3.6
UCFRB Reserve	15,151,680	0.8	14,157,512	0.9	994,168	7.0
FWP Mitigation	11,162,155	0.6	10,841,580	0.7	320,575	3.0
Zortman/Landusky	6,885,646	0.4	6,421,649	0.4	463,997	7.2
Wildlife Habitat	6,883,700	0.4	6,448,872	0.4	434,828	6.7
Abandoned Mines	5,416,370	0.3	5,199,950	0.3	216,420	4.2
Cultural Trust	4,930,175	0.3	4,689,175	0.3	241,000	5.1
Weed Control	4,797,374	0.3	4,866,922	0.3	(69,548)	(1.4)
FWP Real Property	4,676,829	0.3	4,525,667	0.3	151,162	3.3
Trusts in TFBP	414,634	0.0	414,634	0.0	0	0.0
Trusts in MTCP	244,213	0.0	244,213	0.0	0	0.0
Guaranteed Student Loan	0	0.0	5,300,935	0.3	(5,300,935)	(100.0)
Total	1,784,534,613	100.0	1,645,914,338	100.0	138,620,275	8.4
Fixed-Income	1,387,909,792	77.8	1,308,908,546	79.5	79,001,246	6.0
Montana Loans	212,353,581	11.9	221,861,642	13.5	(9,508,061)	(4.3)
Cash Equivalents (STIP)	177,868,468	10.0	114,899,937	7.0	62,968,531	54.8
State Street Repurchase Agr.	6,158,559	0.3	0	0.0	6,158,559	N/A
Equity	244,213	0.0	244,213	0.0	0	0.0
Total	1,784,534,613	100.0	1,645,914,338	100.0	138,620,275	8.4

(1) Includes Treasure State Endowment, Treasure State Water, CST Bond, and Permanent Income Accounts

A complete listing of individual trust fund investment portfolios is shown beginning on Page A – 1 in Appendix A. The investment income earned by each trust is shown beginning on Page A-1 in Appendix A.

COAL TAX TRUST FUND

Article IX, Section 5 of the state Constitution requires that 50 percent of all coal severance tax revenues be deposited in a permanent trust fund (Trust), in which the principal "shall forever remain inviolate unless appropriated by a three-fourths vote of each house" of the legislature. The Board is encouraged to invest up to 25 percent of the Trust in Montana businesses.

The legislature has partitioned the Trust into several sub-funds. The Permanent Fund was initially established when the Trust was created, while the Severance Tax Bond Fund, created later, provides debt service guarantees and is invested solely in STIP. The Treasure State Endowment Fund was created July 1, 1993, with a $10.0 million transfer from the Permanent Fund. From July 1, 1993 through June 30, 1999 one-half of the coal severance tax earmarked for the Trust was deposited in the Permanent Fund and the remaining 50 percent was deposited in the Treasure State Endowment Fund.

Effective July 1, 1999, a new “Treasure State Endowment Regional Water Fund” sub-fund was created and 25 percent of Trust revenues dedicated to that account.

Income from the Permanent Fund and the two Bond Funds is deposited in the Permanent Fund Income Fund where it is swept periodically to the state General Fund. All sub-funds, except the income fund, are protected by the constitution and may be appropriated only by a three-fourths vote of each house of the legislature. Income from the Treasure State Endowment is appropriated by the Legislature for local government infrastructure projects. Treasure State Endowment Regional Water Fund income is appropriated by the Legislature for local government water projects.

The book values of the Coal Tax Trust sub-funds are shown below:

Coal Tax Trust Subfunds at June 30

Subfund	2005 $ Book Value	% of Total	2004 $ Book Value	% of Total	$ Change	% Change
Permanent Fund	549,720,744	77.6	545,070,171	78.9	4,650,573	0.9
Treasure State Endowment	127,055,930	17.9	118,206,758	17.1	8,849,172	7.5
Treasure State Regional Water	22,700,717	3.2	18,288,550	2.6	4,412,167	24.1
Severance Tax Bond Fund	6,151,521	0.9	6,748,396	1.0	(596,874)	(8.8)
Permanent Fund Income	2,742,830	0.4	2,910,915	0.4	(168,085)	(5.8)
Total Coal Tax Trust	708,371,742	100.0	691,224,790	100.0	17,146,952	2.5

The tables on the next page show:

- The changes in book value of portfolio securities,
- The difference between book and fair value of the securities portfolio, and
- The securities’ portfolio total rate of return.

Permanent Coal Tax Trust Change At June 30 (1)

Investment Type	2005 $ Book Value	% of Total	2004 $ Book Value	% of Total	$ Change	% Change
Fixed Income (TFBP)	446,777,546	63.1	428,271,992	62.0	18,505,554	4.3
Science and Technology	14,003,410	2.0	13,959,035	2.0	44,375	0.3
Department of Natural Resources	41,896,024	5.9	44,546,088	6.4	(2,650,063)	(5.9)
Department of Justice	2,112,000	0.3	2,037,000	0.3	75,000	3.7
Department of Revenue	0	0.0	5,698,442	0.8	(5,698,442)	(100.0)
Montana Facility Finance	47,482	0.0	943,904	0.1	(896,422)	(95.0)
Local Gov. Infrastructure	5,659,452	0.8	8,298,805	1.2	(2,639,353)	(31.8)
Value-added Loans	11,104,002	1.6	9,202,821	1.3	1,901,181	20.7
Commercial Loans	137,531,209	19.4	137,175,547	19.8	355,663	0.3
Total In-State Investments	212,353,581	30.0	221,861,642	32.1	(9,508,061)	(4.3)
STIP Tr. St. Endow Trust	1,861,743	0.3	1,557,864	0.2	303,878	19.5
STIP Permanent Trust Income	2,742,830	0.4	2,910,915	0.4	(168,085)	(5.8)
STIP Permanent Fund	37,931,753	5.4	29,833,926	4.3	8,097,827	27.1
STIP Sev. Tax Bond Fund	6,151,521	0.9	6,748,396	1.0	(596,874)	(8.8)
STIP Tr. St. Regional Water	552,769	0.1	40,055	0.0	512,714	N/A
Cash Equivalents (STIP)	49,240,615	7.0	41,091,156	5.9	8,149,460	19.8
Total	708,371,742	100.0	691,224,790	100.0	17,146,953	2.5

(1) Includes Treasure State Endowment, Treasure State Water, CST Bond and Permanent Income Account

Permanent Coal Tax Trust Book/Fair Values At June 30, 2005

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Fixed Income (TFBP)	446,777,546	465,601,267	18,823,721	63.1	64.0
In-State Investments	212,353,581	212,353,581	0	30.0	29.2
Cash Equivalents (STIP)	49,240,615	49,240,615	0	7.0	6.8
Total	708,371,742	727,195,463	18,823,721	100.0	100.0

Permanent Coal Tax Trust 2005 Total Rates of Return

Asset Type	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Cash Equivalents (STIP)	2.30	91-Day T Bill x 105%	2.14	0.16
Fixed Income (TFBP)	8.18	CitiGroup Broad Investment	7.00	1.18
Montana Loans (1)	6.52	In-State Loans	NA	NA
All Assets	7.34			

(1) In-State Investment Loans, Science & Tech Loans, and other legislatively authorized loans

The Coal Tax Trust earned $46.2 million in investment income in 2005, compared to $44.2 million in 2004.

The Coal Tax Trust is also used to fund the In-State Investment Program *(See Page 55)*. The Coal Tax Trust invested balances and investment income history are shown on Page A-19 in Appendix A.

TRUST AND LEGACY FUND

Article X, Sections 2 and 3 of the state Constitution requires that all royalties and other proceeds received from school lands granted to the state under federal enabling legislation be deposited in the Trust and Legacy Fund, where it shall forever remain inviolate and guaranteed by the state against loss or diversion.

Trust & Legacy Fund Annual Change At June 30

Investment Type	2005 $ Book Value	% of Total	2004 $ Book Value	% of Total	$ Change	% Change
Fixed Income (TFBP)	410,653,937	100.0	410,653,937	100.0	0	0.0
Cash Equivalents (STIP)	0	0.0	0	0.0	0	0.0
Total	410,653,937	100.0	410,653,937	100.0	0	0.0

Trust & Legacy Book/Fair Values At June 30, 2005

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Fixed Income (TFBP)	410,653,937	433,049,004	22,395,067	100.0	100.0
Cash Equivalents (STIP)	0	0	0	0.0	0.0
Total	410,653,937	433,049,004	22,395,067	100.0	100.0

Trust & Legacy Fund 2005 Total Rates of Return

Asset Type	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Cash Equivalents (STIP)	2.30	91-Day T Bill x 105%	2.14	0.16
Fixed Income (TFBP)	8.13	CitiGroup Broad Investment	7.00	1.13
All Assets	8.01			

The Trust and Legacy Fund earned $28.4 million in investment income in 2005, compared to $30.1 million in 2004. The Trust and Legacy Fund invested balances and investment income history are shown on Page A-20 in Appendix A.

RESOURCE INDEMNITY TRUST FUND

Article IX, Section 2 of the state Constitution requires that revenues from the Resource Indemnity Tax on minerals be deposited in the Resource Indemnity Trust Fund, the principal of which "shall forever remain inviolate" until the principal reaches $100 million. The fund's book value reached $100.0 million in fiscal 2002.

Resource Indemnity Trust Annual Change At June 30

Investment Type	2005 $ Book Value	% of Total	2004 $ Book Value	% of Total	$ Change	% Change
Fixed Income (TFBP)	99,999,976	99.7	99,999,976	100.0	0	0.0
Cash Equivalents (STIP)	254,868	0.3	800	0.0	254,068	N/A
Total	100,254,844	100.0	100,000,776	100.0	254,068	0.3

Resource Indemnity Trust Book/Fair Values At June 30, 2005

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Fixed Income (TFBP)	99,999,976	106,152,429	6,152,453	99.7	99.8
Cash Equivalents (STIP)	254,868	254,868	0	0.3	0.2
Total	100,254,844	106,407,297	6,152,453	100.0	100.0

Resource Indemnity Trust Fund 2005 Total Rates of Return

Asset Type	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Cash Equivalents (STIP)	2.30	91-Day T Bill x 105%	2.14	0.16
Fixed Income (TFBP)	8.13	CitiGroup Broad Investment	7.00	1.13
All Assets	8.12			

The Resource Indemnity Trust Fund earned $6.9 million in investment income in 2005, compared to $7.4 million in 2004. The Resource Indemnity Trust Fund invested balances and investment income history are shown on Page A-21 in Appendix A.

COAL TAX PARKS/CULTURAL TRUST FUNDS

A portion of the coal severance tax is dedicated to a statutorily created Parks Trust Fund and a Cultural Trust Fund (Trusts). Investment income generated by the Trusts is appropriated by the legislature to acquire/operate state parks and to fund cultural and aesthetics projects. The 1997 Legislature appropriated $3.9 million of Cultural Trust principal to Purchase Historical Properties.

Coal Tax Parks/Cultural Funds Annual Change At June 30

Fund Type	2005 $ Book Value	% of Total	2004 $ Book Value	% of Total	$ Change	% Change
Parks Trust	16,771,162	77.3	16,188,964	77.5	582,199	3.60
Cultural Trust	4,930,175	22.7	4,689,175	22.5	241,000	5.14
Total	21,701,337	100.0	20,878,139	100.0	823,199	3.94
Investment Type						
Fixed Income (TFBP)	21,375,854	98.5	20,466,247	98.0	909,608	4.44
Cash Equivalents (STIP)	325,483	1.5	411,892	2.0	(86,409)	(20.98)
Total	21,701,337	100.0	20,878,139	100.0	823,199	3.94

Parks/Cultural Trusts Book/Fair Values At June 30, 2005

Fund Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Parks Trust	16,771,162	17,359,317	588,154	77.3	77.3
Cultural Trust	4,930,175	5,085,115	154,941	22.7	22.7
Total	21,701,337	22,444,432	743,095	100.0	100.0
Investment Type					
Fixed Income (TFBP)	21,375,854	22,118,949	743,095	98.5	98.5
Cash Equivalents (STIP)	325,483	325,483	0	1.5	1.5
Total	21,701,337	22,444,432	743,095	100.0	100.0

Parks/Cultural Trust Funds 2005 Total Rates of Return

Asset Type	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Parks Trust:				
Cash Equivalents (STIP)	2.30	91-Day T Bill x 105%	2.14	0.16
Fixed Income (TFBP)	8.13	CitiGroup Broad Investment	7.00	1.13
Parks Trust All Assets	8.03			
Cultural Trust:				
Cash Equivalents (STIP)	2.30	91-Day T Bill x 105%	2.14	0.16
Fixed Income (TFBP)	8.13	LB Aggregate Bond	7.00	1.13
Cultural Trust All Assets	8.04			

The trusts earned $1.4 million in investment income in 2005, compared to $1.5 million in 2004. The invested balances and investment income history of these trusts are shown on Page A-22 in Appendix A.

OTHER TRUST FUNDS

Fish, Wildlife, and Parks (FWP) Mitigation Trust - expendable trust funds fish and wildlife mitigation/enhancements.

Abandoned Mine Trust - expendable trust funds abandoned mine reclamation.

FWP Real Property Trust - non-expendable trust funds operations, development, and maintenance of FWP real property.

Weed Control Trust - non-expendable $2.5 million trust funds noxious weed control.

Wildlife Habitat Trust - funds acquisition/development/maintenance of wildlife habitat.

Montana Post and Pole Trust - funds environmental cleanup of the former Montana Pole and Treatment Plant in Butte.

Guaranteed Student Loan - the federal portion of student loan monies.

The UCFRB Funds represent proceeds from state settlements with the Atlantic Richfield Company for restoration of the Upper Clark Fork River Basin.

Streamside Tailing Funds are derived from a consent decree between the state and the Atlantic Richfield Company for remedial treatment of the Silver Bow Creek/Butte area.

Tobacco Trust – The nation's largest tobacco companies are required to pay at least $205.0 billion over the next 25 years to the states. Forty percent of Montana's share is deposited in a trust fund.

Zortman/Landusky Funds were paid by the Pegasus mining company and its insurer to provide long-term water treatment at the closed Zortman and Landusky mines near Malta**.**

Highway 93 Bond - proceeds from a 2005 $129.4 million bond issue to fund Highway 93 improvements.

Other Trusts Annual Change At June 30

Fund	2005 $ Book Value	% of Total	2004 $ Book Value	% of Total	$ Change	% Change
UCFRB Restoration	154,963,038	29.9	149,266,177	39.8	5,696,861	3.8
Highway 93 Bond	129,656,706	25.1	0	0.0	129,656,706	N/A
Streamside Tailings	92,218,907	17.8	93,785,967	25.0	(1,567,059)	(1.7)
Tobacco Trust	57,901,622	11.2	46,756,451	12.5	11,145,171	23.8
Montana Pole	27,704,394	5.4	27,494,950	7.3	209,444	0.8
UCFRB Reserve	15,151,680	2.9	14,157,512	3.8	994,168	7.0
FWP Mitigation	11,162,155	2.2	10,841,580	2.9	320,575	3.0
Zortman/Landusky	6,885,646	1.3	6,421,649	1.7	463,997	7.2
Wildlife Habitat	6,883,700	1.3	6,448,872	1.7	434,828	6.7
Abandoned Mines	5,416,370	1.0	5,199,950	1.4	216,420	4.2
Weed Control	4,797,374	0.9	4,866,922	1.3	(69,548)	(1.4)
FWP Real Property	4,676,829	0.9	4,525,667	1.2	151,162	3.3
Guaranteed Student Loan	0	0.0	5,300,935	1.4	(5,300,935)	(100.0)
Total	517,418,422	100.0	375,066,632	100.0	142,351,790	38.0
Investment Type						
Trust Funds Bond Pool	277,839,504	53.7	257,536,227	68.7	20,303,277	7.9
Corporate Asset-Backed Bonds	10,792,453	2.1	12,217,058	3.3	(1,424,606)	(11.7)
Other Corporate Bonds	16,699,041	3.2	26,988,787	7.2	(10,289,746)	(38.1)
US Mortgage-Backed Bonds	3,121,676	0.6	6,641,924	1.8	(3,520,248)	(53.0)
US Government-Backed Bonds	99,335,774	19.2	44,818,523	11.9	54,517,251	121.6
International Bonds (US $)	899,397	0.2	899,241	0.2	156	0.0
Total Fixed Income	408,687,845	79.0	349,101,761	93.1	59,586,084	17.1
Short Term Investment Pool	102,572,018	19.8	25,964,872	6.9	76,607,146	295.0
State Street Repurchase Agr.	6,158,559	1.2	0	0.0	6,158,559	N/A
Total Cash Equivalents	108,730,577	21.0	25,964,872	6.9	82,765,706	318.8
Total	517,418,422	100.0	375,066,632	100.0	142,351,790	38.0

Other Trusts Book/Fair Values At June 30, 2005

Fund	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
UCFRB Restoration	154,963,038	161,312,993	6,349,954	29.9	30.5
Highway 93 Bond	129,656,706	129,567,724	(88,982)	25.1	24.5
Streamside Tailings	92,218,907	94,691,620	2,472,713	17.8	17.9
Tobacco Trust	57,901,622	58,528,528	626,907	11.2	11.1
Montana Pole	27,704,394	28,156,856	452,462	5.4	5.3
UCFRB Reserve	15,151,680	15,743,881	592,201	2.9	3.0
FWP Mitigation	11,162,155	11,190,292	28,137	2.2	2.1
Zortman/Landusky	6,885,646	8,587,962	1,702,316	1.3	1.6
Wildlife Habitat	6,883,700	6,873,925	(9,775)	1.3	1.3
Abandoned Mines	5,416,370	5,435,860	19,490	1.0	1.0
Weed Control	4,797,374	4,828,595	31,221	0.9	0.9
FWP Real Property	4,676,829	4,676,689	(140)	0.9	0.9
Total	517,418,422	529,594,925	12,176,503	100.0	100.0
Investment Type					
Trust Funds Bond Pool	277,839,504	287,458,974	9,619,469	53.7	54.3
Corporate Asset-Backed Bonds	10,792,453	10,658,015	(134,437)	2.1	2.0
Other Corporate Bonds	16,699,041	16,809,084	110,043	3.2	3.2
US Mortgage-Backed Bonds	3,121,676	3,252,089	130,414	0.6	0.6
US Government-Backed Bonds	99,335,774	101,772,131	2,436,357	19.2	19.2
International (US $)	899,397	914,055	14,658	0.2	0.2
Total Fixed-Income	408,687,845	420,864,348	12,176,503	79.0	79.5
Short Term Investment Pool	102,572,018	102,572,018	0	19.8	19.4
State Street Repurchase Agr.	6,158,559	6,158,559	0	1.2	1.2
Total Cash Equivalents	108,730,577	108,730,577	0	21.0	20.5
Total	517,418,422	529,594,925	12,176,503	100.0	100.0

The other trust portfolios are listed beginning on Page A-6 in Appendix A. The investment income earned by each trust is shown beginning on Page A-1 in Appendix A.

STATE FUND INSURANCE

The State Compensation Insurance Fund (State Fund) provides workers' compensation and occupational disease insurance for claims arising from injuries occurring on or after July 1, 1990. Effective on that date, the state's workers' compensation fund was divided into two funds with separate liabilities. The "old" fund retained all financial obligations for claims for injuries occurring prior to July 1, 1990, while the "new" fund assumed claim obligations for injuries occurring after that date.

State Fund Annual Change At June 30

Investment Type	2005 $ Book Value	% of Total	2004 $ Book Value	% of Total	$ Change	% of Change
Corporate Asset-Backed Bonds	24,310,182	3.7	23,105,996	3.9	1,204,185	5.2
Other Corporate Bonds	256,757,099	38.6	242,107,218	41.3	14,649,881	6.1
US Mortgage-Backed Bonds	26,134,547	3.9	43,220,924	7.4	(17,086,378)	(39.5)
US Government-Backed Bonds	244,379,693	36.8	182,136,355	31.1	62,243,338	34.2
International Bonds (US $)	11,951,816	1.8	8,940,976	1.5	3,010,840	33.7
Total Fixed Income	563,533,335	84.8	499,511,469	85.2	64,021,867	12.8
BGI S&P 500 Equity Index	68,406,676	10.3	68,406,676	11.7	0	0.0
Short Term Investment Pool	29,462,578	4.4	18,207,649	3.1	11,254,929	61.8
State Street Repurchase Agr.	3,105,156	0.5	0	0.0	3,105,156	N/A
Total Cash Equivalents	32,567,734	4.9	18,207,649	3.1	14,360,085	78.9
Total	664,507,746	100.0	586,125,794	100.0	78,381,952	13.4

State Insurance Fund Book/Fair Values At June 30, 2005

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Fixed	% of Fair
Corporate Asset-Backed Bonds	24,310,182	23,997,657	(312,524)	4.2	3.5
Other Corporate Bonds	256,757,099	262,712,646	5,955,547	45.6	38.3
US Mortgage-Backed Bonds	26,134,547	26,917,257	782,711	4.7	3.9
US Government-Backed Bonds	244,379,693	250,083,773	5,704,080	43.4	36.5
International Bonds (US $)	11,951,816	12,475,433	523,618	2.2	1.8
Total Fixed Income	563,533,335	576,186,766	12,653,431	100.0	84.1
BGI S&P 500 Equity Index	68,406,676	76,737,097	8,330,421		11.2
Short Term Investment Pool	29,462,578	29,462,578	0		4.3
State Street Repurchase Agr.	3,105,156	3,105,156	0		0.5
Cash Equivalents (STIP)	32,567,734	32,567,734	0		4.8
Total	664,507,746	685,491,597	20,983,852		100.0

State Fund Insurance 2005 Total Rates of Return

Asset Type	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Cash Equivalents (STIP)	2.30	91-Day T Bill	2.14	0.16
Equities	6.37	S & P 500 Index	6.32	0.05
Fixed Income	5.95	LB Gov/Corp Intermediate	4.77	1.18
All Assets	5.88	Composite (1)	4.86	1.02

(1) An Index Composite paralleling the Fund's asset allocation at fair value

The State Fund earned $30.2 million in investment income in 2005, compared to $27.8 million in 2004. The State Fund portfolio is listed beginning on Page A-8 of Appendix A.

OTHER INSURANCE FUNDS

Old Workers - Compensation Fund - pays claims for all injury claims occurring prior to July 1, 1990.
Group Insurance - created in 1981, provides health and life insurance to non-university state employees.
Subsequent Injury - provides benefits to workers who are vocationally handicapped and whose Workers' Compensation benefits have expired.
Hail Insurance - insures crops from hail damage. The entire account is currently held in STIP.
Other insurance programs whose investments are held solely in STIP include:

University Group Benefits.....$22,164,624
Uninsured Employers.....997,753
Agency Insurance.....10,342,154
Unemployment Insurance Benefits.....4,857,395

Total $38,361,926

Other Insurance Annual Change At June 30

Fund Type	2005 $ Book Value	% of Total	2004 $ Book Value	% of Total	$ Change	% of Change
Old Fund	62,604,429	62.4	71,336,169	75.6	(8,731,740)	(12.2)
Group Insurance	27,006,434	26.9	15,214,849	16.1	11,791,584	77.5
Hail Insurance	8,909,984	8.9	6,102,175	6.5	2,807,809	46.0
Subsequent Injury	1,764,417	1.8	1,745,225	1.8	19,193	1.1
Total	100,285,264	100.0	94,398,418	100.0	5,886,846	6.2
Investment Type						
Corporate Asset-Backed Bonds	2,680,027	2.7	4,924,938	5.2	(2,244,911)	(45.6)
Other Corporate Bonds	10,430,094	10.4	16,103,603	17.1	(5,673,509)	(35.2)
US Mortgage-Backed Bonds	2,415,662	2.4	7,825,891	8.3	(5,410,229)	(69.1)
US Government-Backed Bonds	48,938,362	48.8	44,591,074	47.2	4,347,288	9.7
International Bonds (US $)	99,933	0.1	99,916	0.1	17	0.0
Total Fixed Income	64,564,079	64.4	73,545,422	77.9	(8,981,343)	(12.2)
Short Term Investment Pool	34,634,381	34.5	20,852,996	22.1	13,781,385	66.1
State Street Repurchase Agr.	1,086,805	1.1	0	0.0	1,086,805	N/A
Total Cash Equivalents	35,721,185	35.6	20,852,996	22.1	14,868,189	71.3
Total	100,285,264	100.0	94,398,418	100.0	5,886,846	6.2

Other Insurance Book/Fair Values At June 30, 2005

Fund Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Old Fund	62,604,429	62,952,777	348,348	62.4	62.6
Group Insurance	27,006,434	26,955,926	(50,507)	26.9	26.8
Hail Insurance	8,909,984	8,909,984	0	8.9	8.9
Subsequent Injury	1,764,417	1,768,318	3,900	1.8	1.8
Total	100,285,264	100,587,005	301,741	100.0	100.0
Investment Type					
Corporate Asset-Backed Bonds	2,680,027	2,600,771	(79,256)	2.7	2.6
Other Corporate Bonds	10,430,094	10,445,019	14,925	10.4	10.4
US Mortgage-Backed Bonds	2,415,662	2,500,761	85,098	2.4	2.5
US Government-Backed Bonds	48,938,362	49,217,708	279,346	48.8	48.9
International Bonds (US $)	99,933	101,562	1,629	0.1	0.1
Total Fixed Income	64,564,079	64,865,820	301,741	64.4	64.5
Short Term Investment Pool	34,634,381	34,634,381	0	34.5	34.4
State Street Repurchase Agr.	1,086,805	1,086,805	0	1.1	1.1
Cash Equivalents (STIP)	35,721,185	35,721,185	0	35.6	35.5
Total	100,285,264	100,587,005	301,741	100.0	100.0

Other Insurance Portfolios are listed beginning on Page A-10 of Appendix A.

TREASURER'S FUND

The Treasurer's Fund (Fund) is comprised of surplus cash in all state accounts that do not retain their investment earnings. All earnings are deposited in the State General Fund. State law authorizes the Board to determine the amount of surplus cash in the Fund to be invested and the type of investments to be made. Invested balances at book value vary widely due to varying levels of excess cash in the state's General Fund and other accounts comprising the Fund. This Fund has been a major investor in STIP since 1974 when STIP was created. The "Other" category depicted in the graph consists of US Government Securities and Repurchase Agreements.

Treasurer's Fund Annual Change At June 30

Investment Type	2005 $ Book Value	% of Total	2004 $ Book Value	% of Total	$ Change	% of Change
US Bank Sweep Repo	16,542,234	2.6	0	0.0	16,542,234	N/A
Municipal Investor Account	0	0.0	37,847,576	8.6	(37,847,576)	(100.0)
US Government-Backed Bonds	269,835,639	42.5	182,257,449	41.3	87,578,189	48.1
Cash Equivalents (STIP)	348,097,291	54.9	221,130,581	50.1	126,966,710	57.4
Total	634,475,164	100.0	441,235,606	100.0	193,239,558	43.8

Treasurer's Fund Book/Fair Values At June 30, 2005

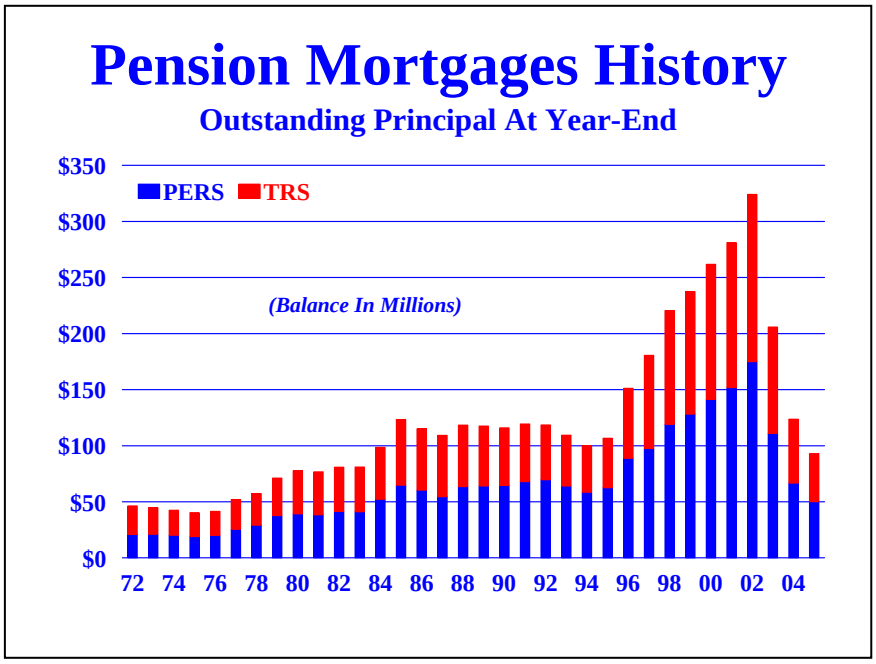
Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
US Bank Sweep Repo	16,542,234	16,542,234	0	2.6	2.6
Municipal Investor Account	0	0	0	0.0	0.0
US Government-Backed Bonds	269,835,639	267,577,534	(2,258,105)	42.5	42.3
Cash Equivalents (STIP)	348,097,291	348,097,292	1	54.9	55.1
Total	634,475,164	632,217,060	(2,258,104)	100.0	100.0

Treasurer's Fund 2005 Total Rates of Return

Asset Type	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Cash Equivalents (STIP)	2.29	91-Day T Bill	2.14	0.15
Fixed Income	2.24	ML US Treasury 1-3 Yrs.	1.87	0.37
All Assets	2.27			

The Treasurer's Fund earned $10.0 million in investment income in 2005, compared to $6.4 million in 2004. The Treasurer's Fund Portfolio is listed beginning on Page A-6 of Appendix A. The Treasurer's Fund invested balance and income history are shown on Page A-23 of Appendix A.

MONTANA RESIDENTIAL MORTGAGES



The Board invests pension funds in Montana mortgages by purchasing all or a portion of mortgages from qualified financial institutions. Interest rates are set weekly, based on quotes from the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, the two major US secondary mortgage markets. Financial institutions charge a fee for servicing the loans. The number and location of mortgages purchased by the Board depend upon the mortgage lending activities of individual financial institutions and their interest in the Board's mortgage program.

Montana Mortgages By Type Annual Change At June 30

Mortgage Type	2005 Book Value	% Of Total	2004 Book Value	% Of Total	$ Change	% Change
Residential Conventional	65,837,802	70.8	85,373,121	69.1	(19,535,320)	(22.9)
Residential FHA	23,739,991	25.5	30,690,906	24.8	(6,950,914)	(22.6)
Residential VA	3,109,327	3.3	3,387,178	2.7	(277,851)	(8.2)
Multi-Family Conventional	123,275	0.1	581,552	0.5	(458,277)	(78.8)
Commercial	0	0.0	3,586,615	2.9	(3,586,615)	(100.0)
Total Mortgages	92,939,453	99.9	123,619,372	100.0	(30,679,919)	(24.8)

Mortgage rates on the secondary market declined to less than 6 percent during 2003 and the Board chose not to purchase mortgages for the pension funds at these rates. This policy, combined with heavy mortgage re-financings of mortgages in the portfolio caused a significant drop in the pension mortgage portfolio during 2003, 2004, and 2005.

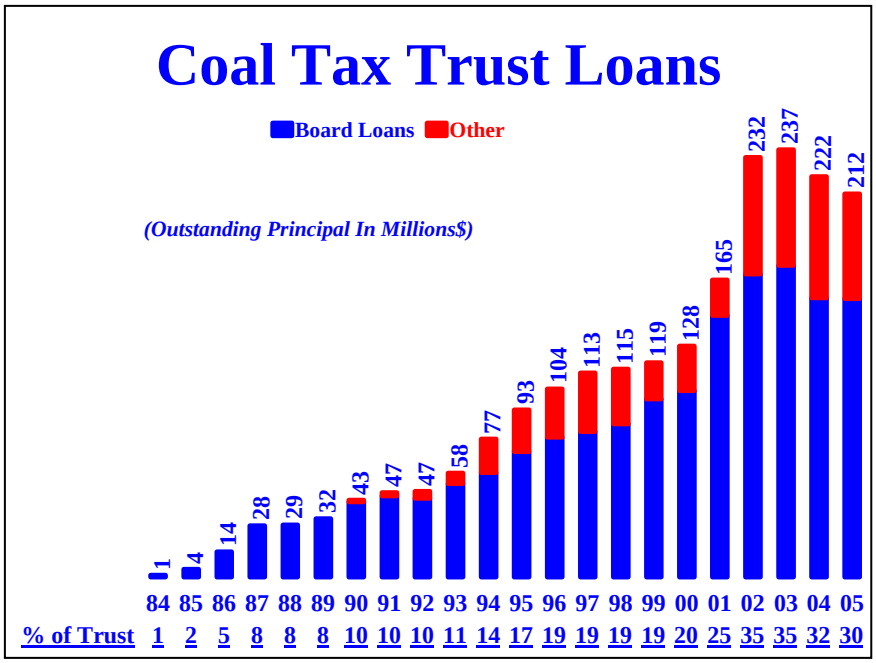
Loan Losses/Arrears – Pension Mortgage loans in arrears 90 or more days decreased from .24 percent of total mortgage holdings at year end 2004 to .23 percent of mortgage holdings at year end 2005. These arrears ratios compare to .44 percent and .40 percent respectively for Montana* financial institutions during the period. The number of properties in foreclosure decreased from one at year-end 2004 to zero at year-end 2005. All mortgages are secured by single-family residential, multi-family residential or commercial properties in Montana.

*Source: Montana Bankers Association National Delinquency Survey data dated 6/30/04 and 6/30/05.

Residential Mortgage Balances By County Annual Change At June 30

County	2005 Balance	% Of Total	2004 Balance	% Of Total	04-05 $ Change	2005 Loans	2004 Loans	04 - 05 Change
Yellowstone	32,926,021	35.4	43,880,608	35.9	(10,954,587)	556	701	(145)
Gallatin	9,749,028	10.5	12,721,441	10.8	(2,972,414)	147	172	(25)
Flathead	6,254,231	6.7	9,186,354	8.2	(2,932,123)	101	134	(33)
Lake	5,264,591	5.7	6,917,452	6.0	(1,652,861)	89	107	(18)
Stillwater	4,867,193	5.2	6,138,979	5.1	(1,271,786)	71	86	(15)
Custer	4,636,911	5.0	5,637,845	3.7	(1,000,934)	112	132	(20)
Cascade	3,928,710	4.2	5,343,504	4.1	(1,414,794)	77	92	(15)
Hill	2,054,572	2.2	2,254,085	1.2	(199,513)	44	46	(2)
Park	2,023,355	2.2	2,351,902	2.2	(328,547)	36	39	(3)
Richland	1,991,738	2.1	2,259,242	1.7	(267,504)	51	57	(6)
Carbon	1,906,655	2.1	2,418,194	1.6	(511,539)	30	35	(5)
Roosevelt	1,819,524	2.0	2,019,438	1.3	(199,913)	41	46	(5)
Sanders	1,786,099	1.9	2,359,762	1.9	(573,663)	27	37	(10)
Valley	1,529,842	1.6	1,560,814	1.0	(30,973)	37	38	(1)
Beaverhead	1,261,751	1.4	1,385,193	1.1	(123,442)	21	22	(1)
Dawson	1,234,238	1.3	1,509,428	1.1	(275,190)	38	43	(5)
Missoula	913,961	1.0	4,380,505	4.7	(3,466,544)	20	36	(16)
Blaine	835,550	0.9	962,502	0.5	(126,952)	18	21	(3)
Lewis & Clark	712,447	0.8	920,095	0.8	(207,648)	19	23	(4)
Phillips	692,732	0.7	743,696	0.5	(50,963)	18	18	0
Rosebud	562,428	0.6	762,097	0.5	(199,670)	13	16	(3)
Choteau	550,861	0.6	630,459	0.5	(79,597)	12	14	(2)
Madison	546,638	0.6	566,369	0.6	(19,731)	5	5	0
Fergus	518,145	0.6	565,984	0.4	(47,840)	9	13	(4)
Bighorn	409,388	0.4	469,048	0.3	(59,660)	10	11	(1)
Fallon	401,874	0.4	451,237	0.2	(49,363)	8	9	(1)
Jefferson	394,769	0.4	651,458	0.4	(256,690)	6	9	(3)
Broadwater	390,300	0.4	429,979	0.4	(39,679)	14	14	0
Ravalli	342,200	0.4	513,761	0.5	(171,561)	5	6	(1)
Silver Bow	326,511	0.4	644,571	0.4	(318,060)	8	12	(4)
Glacier	267,019	0.3	454,946	0.4	(187,927)	5	9	(4)
Wheatland	161,183	0.2	223,558	0.1	(62,375)	4	5	(1)
Sheridan	159,388	0.2	236,023	0.1	(76,635)	8	10	(2)
Powell	144,752	0.2	148,309	0.2	(3,557)	3	3	0
McCone	133,560	0.1	142,756	0.1	(9,196)	4	4	0
Sweet Grass	118,149	0.1	252,871	0.3	(134,723)	3	5	(2)
Treasure	115,113	0.1	116,717	0.1	(1,604)	1	1	0
Deer Lodge	111,494	0.1	45,914	0.0	65,580	3	2	1
Musselshell	84,943	0.1	168,442	0.2	(83,499)	3	5	(2)
Mineral	83,118	0.1	98,160	0.1	(15,042)	1	1	0
Pondera	76,699	0.1	102,415	0.1	(25,716)	1	2	(1)
Prairie	69,526	0.1	73,398	0.0	(3,872)	2	2	0
Daniels	58,487	0.1	109,086	0.1	(50,599)	1	2	(1)
Carter	57,498	0.1	61,365	0.0	(3,867)	2	2	0
Judith Basin	51,110	0.1	52,060	0.0	(950)	1	1	0
Teton	46,267	0.0	109,343	0.1	(63,076)	2	5	(3)
Golden Valley	44,273	0.0	50,509	0.0	(6,236)	1	1	0
Lincoln	43,032	0.0	229,317	0.2	(186,285)	1	3	(2)
Granite	35,062	0.0	35,758	0.0	(697)	1	1	0
Wibaux	27,249	0.0	33,632	0.0	(6,383)	2	2	0
Meagher	26,911	0.0	99,639	0.1	(72,728)	1	3	(2)
Powder River	25,857	0.0	28,592	0.0	(2,735)	1	1	0
Garfield	23,433	0.0	99,642	0.1	(76,208)	1	2	(1)
Toole	14,008	0.0	34,916	0.0	(20,908)	1	3	(2)
Total	92,939,453	100.0	123,619,372	100.0	(30,679,919)	1,696	2,069	(373)

COAL TAX TRUST LOANS



Created in 1984 as part of the "Build Montana" program, this program invests Coal Tax Trust funds in Montana to stimulate the state's economy. State law authorizes the Board to invest the Trust to increase employment and business opportunities, while maintaining and improving the state's physical environment. The "other" portion of the graph is comprised of these loans:

DNRC - $41.9 Million
Science & Tech - 14.0 Million
Dep. of Justice - 2.1 Million
Facilities Finance - .5 Million

Loan Types – Five major loans types are available in the In-State Investment Program, some of which offer a job credit interest rate reduction equal to 0.05 percent for each job created, up to a maximum reduction of 2.5 percent.

The Federal Guaranteed Loan Program purchases the guaranteed portion of loans, guaranteed by the Small Business Administration, the Bureau of Indian Affairs, the Rural Business and Cooperative Service, and the Economic Development Administration. Loan proceeds may be used for working capital, inventory, equipment, real property, or similar items. At year-end 2005, this Program had $60.05 million in loan principal outstanding, or 43.66 percent of total outstanding Commercial Loan principal.

The Business Loan Participation Program purchases from originating financial institutions up to 80 percent of a participation loan. Unencumbered land, buildings, and equipment may be financed with the loan proceeds. The financial institutions charge a fee to service the loan and the Board's loan is collateralized proportionally to the Board's share of the loan. At year-end 2005, this Program had $71.48 million in loan principal outstanding, or 52.0 percent of total outstanding Commercial Loan principal.

The Economic Development Linked Deposit Program offers businesses long-term, fixed-rate financing for working capital, inventory, or real property. The Board places a long-term deposit at a pre-established rate with the financial institution originating the loan. The lender assumes all loan risk and is assured a specific "spread" for the term of the loan. At year-end 2005, this Program had $4.19 million in loan principal outstanding, or 3.0 percent of total outstanding Commercial Loan principal.

The Infrastructure Loan Program provides loans to eligible local governments for constructing infrastructure required by job creating businesses in their jurisdiction. At year-end 2005, this Program had $5.66 million in loan principal outstanding. Total loans outstanding in this Program are limited by law to $50.0 million.

The Value-added Loan Program provides low interest loans to value-added type businesses that create or retain jobs. At year-end 2005, this Program had $11.10 million in loan principal outstanding. Total loans outstanding in this Program are limited by law to $50.0 million**.**

Loan Yield - On June 30, 2005, the average weighted yield of all outstanding commercial loans, excluding Value-Added Loans whose interest rates are set by law, was 5.93 percent.

Loans From Inception By County Annual Change At June 30

County	Through 2005	% Of Total	Through 2004	% Of Total	04-05 $ Increase	2005 <# Loans>	2004	04-05 Inc
Missoula	84,839,411	17.9	84,574,058	18.7	265,353	209	208	1
Yellowstone	63,249,342	13.3	55,146,758	12.2	8,102,584	122	115	7
Gallatin	61,949,128	13.1	61,179,764	13.6	769,365	110	108	2
Cascade	40,546,039	8.6	34,463,707	7.6	6,082,332	45	38	7
Lewis & Clark	40,317,039	8.5	33,524,971	7.4	6,792,068	92	85	7
Flathead	36,183,535	7.6	36,183,535	8.0	0	79	79	0
Lake	19,432,991	4.1	19,432,991	4.3	0	91	91	0
Park	17,260,860	3.6	17,260,860	3.8	0	27	27	0
Ravalli	14,987,006	3.2	14,987,006	3.3	0	48	48	0
Madison	13,713,554	2.9	13,713,554	3.0	0	70	70	0
Beaverhead	11,150,710	2.4	11,150,710	2.5	0	30	30	0
Silver Bow	10,057,683	2.1	9,984,143	2.2	73,540	12	10	2
Stillwater	9,230,452	1.9	9,037,797	2.0	192,654	48	46	2
Sanders	7,730,387	1.6	7,730,387	1.7	0	10	10	0
Blaine	5,928,325	1.3	5,928,325	1.3	0	34	34	0
Richland	3,580,953	0.8	3,580,953	0.8	0	26	26	0
Rosebud	3,162,078	0.7	3,162,078	0.7	0	2	2	0
Carbon	3,037,336	0.6	2,904,586	0.6	132,750	17	13	4
Roosevelt	2,972,856	0.6	2,972,856	0.7	0	7	7	0
Jefferson	2,863,980	0.6	2,863,980	0.6	0	12	12	0
Custer	1,960,399	0.4	1,725,449	0.4	234,950	3	2	1
Lincoln	1,923,608	0.4	1,923,608	0.4	0	6	6	0
Valley	1,906,399	0.4	1,906,399	0.4	0	15	15	0
Choteau	1,701,998	0.4	1,701,998	0.4	0	4	4	0
Mineral	1,611,093	0.3	1,611,093	0.4	0	3	3	0
Granite	1,524,095	0.3	1,524,095	0.3	0	6	6	0
Hill	1,511,297	0.3	1,511,297	0.3	0	9	9	0
Meagher	1,424,517	0.3	1,424,517	0.3	0	5	5	0
Fergus	1,219,955	0.3	1,219,955	0.3	0	3	3	0
Phillips	1,020,139	0.2	1,020,139	0.2	0	3	3	0
Dawson	874,285	0.2	874,285	0.2	0	1	1	0
Sweet Grass	751,737	0.2	751,737	0.2	0	3	3	0
Bighorn	676,400	0.1	676,400	0.1	0	3	3	0
Powell	616,500	0.1	616,500	0.1	0	1	1	0
Toole	492,707	0.1	492,707	0.1	0	1	1	0
Fallon	476,429	0.1	476,429	0.1	0	2	2	0
Broadwater	463,199	0.1	463,199	0.1	0	3	3	0
Liberty	455,439	0.1	455,439	0.1	0	3	3	0
Pondera	425,000	0.1	425,000	0.1	0	1	1	0
McCone	295,148	0.1	295,148	0.1	0	3	3	0
Musselshell	163,000	0.0	163,000	0.0	0	1	1	0
Wibaux	90,000	0.0	90,000	0.0	0	1	1	0
Powder River	57,105	0.0	57,105	0.0	0	1	1	0
Total	473,834,114	100.0	451,188,517	100.0	22,645,596	1,172	1,139	33

Commercial Loan By Sector Annual Change At June 30

Investment Type	2005 Book Value	% Of Total	2004 Book Value	% Of Total	$ (1) Change	% Change
Service Industry	167,669,054	35.4	158,305,878	35.1	9,363,175	5.9
Manufacturing	66,430,023	14.0	64,964,335	14.4	1,465,688	2.3
Retail Trade	74,596,411	15.7	76,040,882	16.9	(1,444,472)	(1.9)
Agriculture/Forestry/Fishing	54,206,164	11.4	54,206,156	12.0	8	0.0
Finance/Insurance/Real Estate	84,838,783	17.9	74,759,022	16.6	10,079,761	13.5
Transportation/Utilities/Comm.	7,664,904	1.6	7,941,437	1.8	(276,533)	(3.5)
Wholesale Trade	8,797,713	1.9	6,180,451	1.4	2,617,262	42.3
Construction	6,684,052	1.4	5,843,345	1.3	840,707	14.4
Mining	2,947,010	0.6	2,947,010	0.7	0	0.0
Total	473,834,114	100.0	451,188,517	100.0	22,645,596	5.0

(1) Several Changes Were Made in Sector Codes During Fiscal 2005

Loan Losses/Arrears – The number of loans in this program in arrears 90 or more days decreased from .87 percent of total outstanding loans at year-end 2004 to .12 percent of outstanding loans at year-end 2005. These arrears ratios compare to 2.04 percent and 1.63 percent, respectively for Montana* financial institutions during that period. There were no losses in 2004 or 2005.

*Source: Total FDIC Past Due and Non Accrual as of 3/31/05.

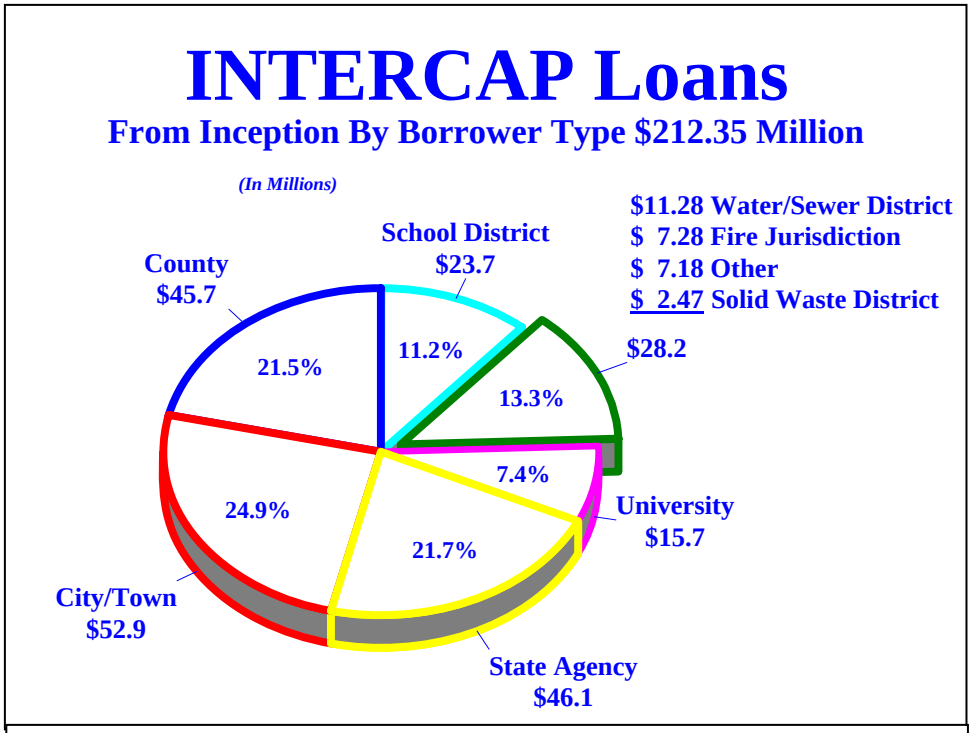
In addition to the Coal Tax Loan Program and the Residential Mortgage Programs, the Board also invests other state funds in Montana and guarantees bonds as shown in the table below:

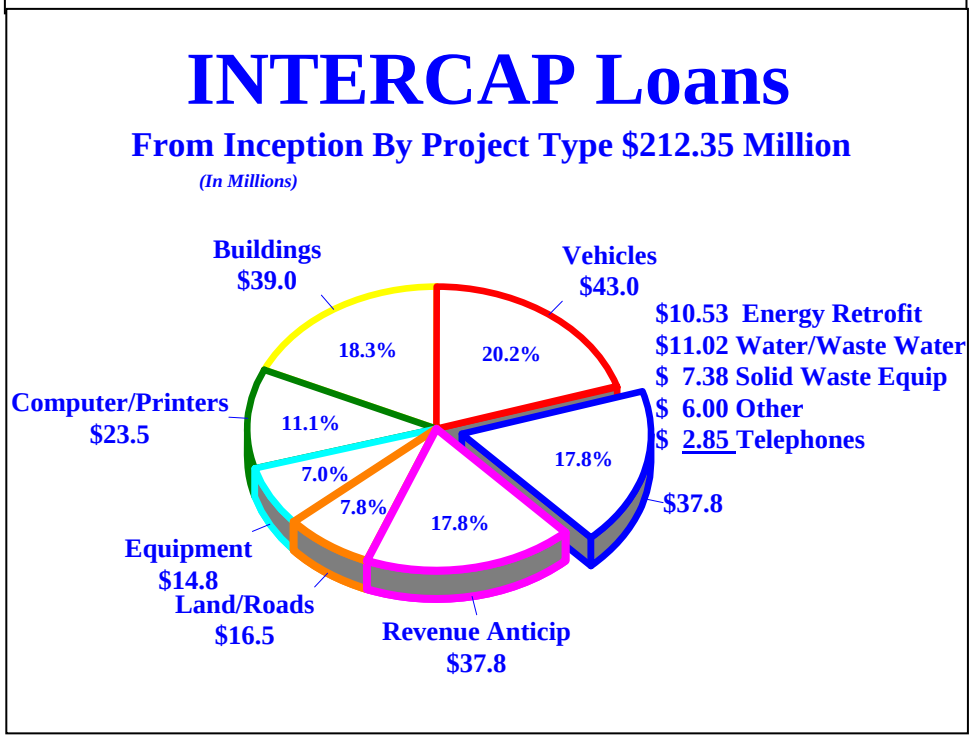
Instate Loans and Other In-State Investments

Loan Type	2005 $ Book Value	2004 $ Book Value	$ Change
Commercial Loans	137,531,209	137,175,547	355,663
Residential Mortgages	92,939,453	123,619,372	(30,679,919)
School Trust Loan	41,896,024	44,546,088	(2,650,063)
Pension Equity Real Estate	16,316,230	16,092,940	223,289
Montana Science and Technology	14,003,410	13,959,035	44,375
Value-Added Loans	11,104,002	9,202,821	1,901,181
Infrastructure Loans	5,659,452	8,298,806	(2,639,353)
Department of Justice Loan	2,112,000	2,037,000	75,000
Facility Finance Authority Loans	47,482	943,904	(896,422)
Department of Revenue Loan	0	5,698,442	(5,698,442)
Total In-State Loans	321,609,263	361,573,954	(39,964,691)
PPL Montana	45,396,911	48,221,512	(2,824,602)
Med Map LLC (St. Vincent's Hospital, Billings)	23,910,000	24,960,000	(1,050,000)
First Interstate BancSystem, Montana	8,900,000	12,900,000	(4,000,000)
Montana CRP Bonds (69 issues)	3,028,270	4,789,283	(1,761,013)
Butte/Silver Bow Tax Increment	1,535,000	3,225,000	(1,690,000)
Board of Housing	1,140,000	1,145,000	(5,000)
Renewable Resource (1997A GO)	419,219	733,242	(314,023)
Total State, Local Gvt and Corporate Bonds	84,329,399	95,974,037	(11,644,638)
Total Loans and Bonds	405,938,662	457,547,991	(51,609,329)
Bond Guarantees (1)	130,476,641	126,787,072	3,689,569

(1) Guarantees of INTERCAP and Montana Facility Finance Authority Bonds

BOND PROGRAMS





INTERCAP - The Board administers several bond programs under the Montana Economic Development Bond and the Municipal Finance Consolidation Acts, created as part of the "Build Montana" program in 1984.

The INTERCAP program lends funds to eligible governments for a variety of purposes. The upper graph depicts the types of borrowers using the program since its inception. Since 1987, 401 eligible governments have received 1,066 loans, totaling $212.35 million.

The lower graph shows the types of projects for which loans were made since program inception. At June 30, 2005, there was $64.74 million in outstanding loan balances.

INTERCAP loans are funded with proceeds from bonds issued by the Board. Since the program's inception, the Board has issued $109 million in bonds with $84.28 million outstanding at June 30, 2005.

Loan interest rates, which are reset each February 16 based on the interest on the bonds funding the loans, were set at 3.80 percent on February 16, 2005.

Other bond programs managed by the Board are**:**

- ***School District Pooled Refunding Program***

In 1991 the Board purchased general obligation refunding bonds of participating school districts, enabling the districts to refinance their outstanding bonds at a lower interest rate. The 16 school districts participating in this $6.234 million bond issue saved a total of $577,600 in interest over the life of the refunding bonds. Although this Program is inactive, it could be re-activated given sufficient demand.

- ***Pooled Irrigation Program***

Five irrigation districts participated in this Program that prepaid their outstanding loans to the federal Bureau of Reclamation. The Board issued bonds of $4.976 million in 1988 to prepay $15.6 million of non-interest bearing federal loans held by the districts. The Board lent the bond proceeds to the districts at an average 7.20 percent interest. Although the districts paid off non-interest federal loans with interest bearing loans, they saved a total of $5.9 million, because the federal loans were prepaid at steep discounts, thereby significantly lowering the amount of principal owed by the districts.

- ***Qualified Zone Academy Bond Program (QZAB)***

This program allows qualifying school districts to borrow money at no or nominal interest rates by issuing qualified zone academy bonds. Bonds outstanding as of June 30 are listed below:

Project	Issue Date	Issue Amount	6/30/05 Balance
Huntley Project Schools	12/00	750,000	750,000
Bozeman Public Schools	11/03	1,586,000	1,586,000
Philipsburg Schools	12/03	2,000,000	2,000,000
Total		**4,336,000**	**4,336,000**

Economic Development Bond Act

- ***Stand Alone Economic Development Bond Program***

This Program provides qualifying businesses access to tax-exempt funds and the Board has issued bonds to finance several projects. The Board acts as a legal funding conduit only and is not pecuniarily liable for the repayment of the bonds. Bonds outstanding as of June 30 are listed below:

Project	Issue Date	Issue Amount	6/30/05 Balance
Colstrip	10/89	60,800,000	53,100,000
BGI	07/93	118,345,000	116,345,000
Stillwater Mining	07/00	30,000,000	30,000,000
Gainey Foundation	10/02	6,000,000	5,140,000
Total		**215,145,000**	**204,585,000**

- ***Montana Conservation Reserve Payment (CRP) Enhancement Program***

This Program provides loans to Montana farmers to refinance outstanding loans and/or to purchase additional land and farm equipment. The borrowers assign their federal CRP contracts to the Board in exchange for a loan ranging from 60 percent to 75 percent of the remaining payments on the CRP contracts. When the Program began, bonds were issued to provide funding for the loans. Recently, the loans have been funded from the Trust Funds Bond Pool as an investment. Loan interest rates are typically set at 0.50 higher than the interest set by the Trust Funds Bond Pool manager. A total of 231 loans, totaling $30.29 million have been funded under this Program**.**

- ***Pooled Economic Development Bond Program***

This Program, inactive since 1986 due to federal tax law revisions, provided loans to small businesses to expand and improve their facilities. The Board funded the loans by issuing tax-exempt bonds. Except for a pledge of revenues and a guaranty fund, the Board has no pecuniary liability under this Program. Although there is one loan outstanding in this program, the bonds issued to fund the loans have been repaid.

The Bond Program financial statements begin on Page 74 of Appendix B**.**